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HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON FINANCE

UNITED STATES SENATE

NINETY-THIRD CONGRESS

FIRST SESSION

FEBRUARY 26, 27, 28; AND MARCH 1 AND 6, 1973

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MULTINATIONAL CORPORATIONS

MONDAY, FEBRUARY 26, 1973

U.S. Senate,
Subcommittee on International Trade
of the Committee on Finance,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2221, Dirksen Senate Office Building, Senator Abraham Ribicoff (chairman) presiding.

Present: Senators Ribicoff, Nelson, Mondale, Bentsen, Fannin, Curtis, Hansen, and Packwood.

Also present: Senators Long (chairman of the full committee), Hartke, Bennett, and Roth.

Senator Ribicoff. Members of the committee, the latest international monetary crisis leading to the second devaluation of the dollar in less than 2 years is another dramatic reminder that the international trading community has not put its house in order.

This Nation's economic standing in the world is at a low point. We have one of the highest rates of unemployment of all the industrialized nations. We have gone from a $7 billion trade surplus in 1964 to a $7 billion trade deficit last year. If we accepted Chairman Long's contention, on a CIF basis it would be $14 billion instead of $7 billion on an f.o.b. basis. Our balance-of-payment deficit was greater than $10 billion.

Those who maintain that the two devaluations of the dollar will take care of these serious imbalances and prevent new currency crises are whistling in the dark. If devaluations were good for a nation's economy, then those countries who have been devaluating their currencies regularly would have the strongest economies in the world.

Part of the problem is that we are today dealing with new phenomena that require new understanding before solutions can be offered. Increasingly questions are being asked about the role American multinational corporations have been playing in currency movements and the export of American jobs and technology as well as the implications of their operations on national interests. But American companies are not the only ones involved. The economic strength of these large corporations, both foreign and American, is immense. They control huge financial resources and shift capital, technology, and management skills across borders, sometimes contrary to the interest of the nations in which they operate.

During the past few years they have become the focus of controversy in our own country and have increasingly come under attack. In covering aspects of the operation of the multinationals, I realize we will be getting into discussion of basic foreign economic policies. I welcome this. All of us concerned with these problems welcome the fullest and frankest treatment of these issues.

Now, one of the people most qualified to speak about these matters is our first witness, Mr. Peter Flanigan. Mr. Flanigan is making his first appearance today before the Finance Committee and I hope this experience will not convince you, Mr. Flanigan, that it should be your last.

Mr. Flanigan holds two positions, Executive Director of the Council on International Economic Policy, and Special Assistant to the President. He has reminded me that he is appearing today wearing only his first hat, and we will respect that. We understand the confidential nature of certain matters between you and the President of the United States. We are looking forward to hearing his testimony.

Before Mr. Flanigan testifies, are there any other members of the committee who would like to make a statement?

Senator FANNIN. Mr. Chairman, I would like to make a very short statement.

Mr. Chairman, this subcommittee met in May 1971. I commented in a brief opening statement that the issues to be discussed then were fundamental to the future of our Nation and the world. Further, I pointed out that it was obvious that we in Government cannot continue to allow the erosion of the American position in world trade.

The continuing deficit in our balance of payments, the dramatic increase in the trade deficit for 1972, and the two currency devaluations since that time lead me to conclude that many authorities at that time did not appreciate the gravity of the problem. I am confident that this is not the case today.

Many experts in the foreign trade area have proposed what they deem to be solutions to our foreign trade and economic ills. One solution appears to be an attempt to eliminate the multinational corporation as a means of engaging in foreign commerce. The multinational corporation has become the subject of extended debate. We have heard loose accusations that they threaten national sovereignty, that they export jobs, that they erode our balance of payments and, in general, that they are responsible for the economic ills of our Nation.

I look forward to the testimony of the distinguished list of witnesses scheduled to appear before this committee during the next 2 weeks. Hopefully, these hearings will shed some light on the true nature of our problems and enable us to begin focusing on a proper solution to our drastic trade and monetary ills, and we certainly welcome the distinguished Mr. Peter Flanigan here this morning, knowing that he has great expertise in this field.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. Mr. Chairman, I welcome the subcommittee's study of multinational corporations and in my opinion, this may be one of the most significant examinations undertaken by Congress this year.

We have a very impressive witness list and I look forward to hearing the expert testimony on the impact of multinational corporations activities on both our domestic economy and the U.S. position in world markets.

I believe the preponderance of the evidence compiled by the various studies already submitted to the subcommittee show that multinational corporations have played an important role in widening U.S. exports in markets, assisting favorably in our balance of payments, creating jobs, and helping economic development of other nations. It is my hope and belief that the factual evidence which we will develop through these hearings will put to rest many of the misconceptions surrounding multinational corporations. I hope that such evidence will show that instead of exporting jobs, multinational corporations have contributed an increase to domestic employment. The Tariff Commission reports conclude that there has been a net gain to U.S. employment of approximately one-half million jobs as a result of multinational corporation operations.

Instead of having a negative effect on the balance of payments, multinational corporations represent one of the few bright spots in a worsening balance-of-payments situation. Between 1961 and 1971 foreign investment showed a net balance-of-payments surplus of $30 billion favoring the United States. Instead of contributing to a negative balance of trade, multinational corporations have increased exports in many cases.

Mr. Chairman, these hearings are especially timely in view of bold actions taken in recent weeks by the administration to shore up the U.S. position in the world economy. The information which we will develop will materially assist the Congress in its consideration of various legislative proposals submitted by the President to implement his foreign economic policy. Ultimately this subcommittee study must face the question of American ability to compete in a world market which is changing dramatically. We must examine treatment of productivity, trade, and investment in the light of America's historic position of strength in the world economy and with a view of maintaining that strong position in an everchanging situation.

Senator RIBICOFF. Thank you. Would any other members of the committee care to make an opening statement?

We will include in the record a copy of the press release announcing these hearings.

(The press release follows:)

From Senator Abe Ribicoff (D-Conn.)
Release AM Wednesday, February 21, 1973
Hearings on Multinational Corporations

"FINANCE SUBCOMMITTEE ON INTERNATIONAL TRADE TO HOLD HEARINGS ON MULTINATIONAL CORPORATIONS"

WASHINGTON, D. C. --Senator Abe Ribicoff (D-Conn.), Chairman of the Subcommittee on International Trade of the Senate Finance Committee, today announced that the Subcommittee will hold hearings on the issues raised by the operations of multinational corporations beginning Monday, February 26, 1973.

Senator Ribicoff also released a compendium of papers submitted to the Subcommittee by interested parties on the effects of multinational corporations on the U. S., and world economies. This 938 - page document consisting of submissions from 26 different sources supplements the recently released Tariff Commission study on this subject. Both are available at the Government Printing Office.

Among the witnesses who will testify before the Subcommittee are AFL-CIO President George Meany and White House Economic Aide Peter Flanigan. This will be Mr. Flanigan's first appearance before a Congressional Committee, as Executive Director of the President's Council on International Economic Policy, to discuss foreign economic policy issues.

The schedule of witnesses is as follows:

Monday, February 26

Peter M. Flanigan, Executive Director, Council on International Economic Policy and Special Assistant to the President.

Donald M. Kendall, Chairman of the Board of PepsiCo. Inc., and Chairman, Emergency Committee for Foreign Trade.

Tuesday, February 27

Thomas A. Murphy, Vice Chairman of the Board, General Motors Corporation.

Wednesday, February 28

Frederick Dent, Secretary of Commerce.

Sam Pisar, International lawyer and author.

Thursday, March 1

Gilbert E. Jones, Chairman of the Board, IBM World Trade Corporation.

Leonard Woodcock, President, United Auto Workers Union of America.

Tuesday, March 6

George Meany, President, AFL-CIO.

Perry Wilson, Chairman of the Board, Union Carbide Corporation.

In announcing the hearings Senator Ribicoff said:

"The United States international economic position is undergoing profound change--the devaluation of the dollar, our almost $7 billion past year trade deficit, and our continuing high rate of unemployment demonstrate that new approaches are needed to deal with this new situation.

"Of special interest is the emergence of the multinational corporation as a major factor in international production and trade. The production of these companies already accounts for about one-sixth of the gross world product and is growing at a faster rate than total world production.

""The multinational firms' unique ability to combine capital, technology and management from one country, with labor and raw materials from others, has truly internationalized the production process. But grave doubts have been voiced over the nature of these operations and the vast power at the command of these firms. Proponents of the multinational corporation argue that these firms create jobs, expand exports and markets, and help our balance of payments while contributing to the economic development of host countries.

"Critics maintain that the operations of the multinational companies pose a threat to the American standard of living, jobs and the industrial base of the United States by transferring technology and production overseas. They point out that capital, management and technology are internationally mobile, while labor clearly is not. They argue that the deterioration of the U. S. position in world trade and our current high rate of unemployment is due, in large measure, to the operation of our multinational firms.

"To better understand this matter and what measures should be taken to deal with it, the Subcommittee will be seeking answers to the following questions during the hearings:

1. What can be done to improve the competitive position of U.S. industry in world markets and to create additional employment in the United States, and what contributions can multinational companies make to this end?
2. To what extent do foreign trade barriers and the actions of foreign governments encourage the shift of American productive facilities and technology to other countries, and how should these problems be treated?

3. What will be the competitive position of our basic manufacturing industries 10 or 20 years from now if our present tax, trade, and antitrust laws continue to be essentially unchanged? What policies should the United States adopt to ease the effects of economic dislocations while seeking improvements in our competitive position in world trade?

4. Are there realistic alternatives to the solutions embodied in the Hartke-Burke legislation?

" We hope these hearings will shed needed light on these issues, and that the compendium will be a valuable source for those interested in knowing more about them.."

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Senator RIBICOFF. Mr. Flanigan, we welcome you and you may proceed, sir.

STATEMENT OF PETER M. FLANIGAN, EXECUTIVE DIRECTOR OF THE COUNCIL ON INTERNATIONAL POLICY

Mr. FLANIGAN. Thank you, Mr. Chairman, gentlemen. It is a privilege for me to be with you this morning to exchange views on the topic of multinational corporations. My knowledge on this subject has grown appreciably since my last appearance before a Senate committee where, unlike today, the question was whether I knew too much about one particular multinational corporation. I will try to give you an administration viewpoint regarding the multinational corporation and its part in the broader international economic picture. Secretary Dent will be with you later in the week to provide more specifics, and particularly the results of some recent studies of the multinational corporation by his Department.

Too often in the past we and other countries have tended to view trade, monetary and investment problems as separate and isolated issues, each requiring its own solution. However, our experience over the last few years has clearly shown that, in today's economically interdependent world, no action in any one area of international economic activity is without consequence for the others.

The world's current arrangements for handling economic activities among nations lack coherence and have given rise to a great variety of inequities and incompatible policies. It is our conviction that commercial nations can no longer afford to alter just one part of the overall system without considering its effect on other parts. Our strategy must be—and is—to seek a thoroughgoing reform of the system as a whole to insure that future arrangements are mutually reinforcing for the operation of an open and equitable international economy.

In the international economic system today we find a long list of distorting practices, in the forms of tariffs, nontariff barriers, anachronistic monetary arrangements as well as measures designed to promote or inhibit investment flows and the activities of investors abroad. All of these practices in turn have inevitable consequences for the functioning of the monetary system, the means by which countries adjust to changes in their relative international economic position and in the patterns of international trade, investment, and payments. These distortions will be the subject of the monetary and trade negotiations which we are undertaking this year.

In these negotiations, our purpose is clear. As recently stated by the President, it is to get a "fair shake" for American workers and American companies. We are asking our negotiating partners to work with us to reduce existing distortions and to remove inequitable rules and practices in the interest of an open and equitable international economy. We seek a world in which nations trade, invest, and deal financially with each other according to rules and procedures which are fair and applied equally to all.

The net result we seek from our international economic policy is more jobs at higher real income for all Americans. In this context, a subject of the deepest concern is the loss of jobs for American workers as a result of unfair practices by foreign competition.

In seeking to remedy glaring examples of unfair international competition, such as dumping or subsidized exports, we must be sure that we carefully analyze the real causes. We must not fall prey to the expedient of adopting an alleged cure which is in fact completely unrelated to the true problems.

Because of its large economy the United States creates substantial amounts of savings and, consequently, resources for investment. Although we do not have precise data, the U.S. share of world savings is probably somewhere between that of its 30-percent share of world gross national product and its 13-percent share of world trade. In short, the U.S. economy is a major source of investment in the aggregate world economy. However, we should recognize that the great bulk of this investment stays here at home. The capital outflow from all U.S. direct foreign investment is only about 6 percent of U.S. private domestic business investment.

To the extent that a portion of this investment flows abroad, it is widely agreed that it stimulates employment, wages, and therefore, welfare in the recipient country, while at the same time maximizing the return on investment to the investor at home.

Further, it can be said that the job of business is to combine labor, capital, materials, technology, and management in the most productive way, and the consumer is the beneficiary of its success in doing so—through product availability and choice, and through lower costs and thus lower prices.

This point of view contends that the very international mobility of capital, technology, and management and the continually reducing cost of transporting materials allows more and more beneficial combinations of the elements of production, and that the multinational corporation is a main instrument for achieving these benefits.

As an analog, consider what the economic well-being of this country would be today if at some time in history we had limited the operations of each business to one State. Only capital accumulated within a State could be used to develop its industry; technology used in the industry of a State had to have originated there; management had to be drawn from State "citizens"; economies of interstate scale had to be foregone. Clearly, we would all be living at a considerably lower level than we do now and certainly we would not be able to carry the tremendous social expenditures that we do now.

Despite these benefits attributed to direct foreign investment, the flow of capital abroad also has its critics. The direct foreign investor returns earnings to his home country; but the host countries prefer foreign customers to foreign owners of their productive assets, particularly after the initial risk has been successfully surmounted by the investing firm. In addition, the owners of assets abroad are not always popular in their own country when their investments are alleged to cost domestic jobs.

Since what we have come to call multinational corporations (MNC's) are among the world's largest and best known firms, they have become the obvious targets for critics of direct foreign investment. Multinational corporations and the direct investment activities they pursue have been viewed by some as agents for infringement upon the national sovereignty of host countries and as the means to export jobs and productive capital from the investing countries. Multinational corporation managements have, at times, been described as mobilizers of market and investment information, who spot profit opportunities and then quickly move management and capital into them, without sufficient regard to human sensitivities, economic conditions in the home or host countries, and the rights and interests of the other society.

Thus, the economic theory that lies behind the benefits ascribed to direct foreign investment is challenged as being unrealized in practice. I believe that such evidence as is available must be used to weigh the different assessments we hear of multinational corporations and to be sure that our policy is developed in an evenhanded way. Where the evidence suggests some net harm from the investment activities of multinational corporations, those activities must be promptly addressed. Where net gain is found, multinational corporation activities should be encouraged. The art of sensible policy development will be to maintain the benefits of international investment while alleviating any harmful side effects.

Although this business form has been around for decades, the multinational corporation has become an increasingly visible form of business entity in recent years.

Part of this visibility can be explained by the sheer size of many of these companies. About four-fifths of the approximate $93 billion book value of U.S. foreign direct investment is accounted for by a few hundred U.S.-based multinational firms. I might note that a 1966 OECD study shows that the U.S. accounts for only 60 percent of the world's total foreign investment, with the remaining 40 percent largely from Western Europe. In fact, I would expect that, relative to its size, multinational corporations are at least as important a part of the economic life of Switzerland as they are of the United States.

Another reason for the attention these companies have attracted arises from their dynamic character. Because the multinational corporation has introduced so many changes in the places it operates—in the use of capital, the introduction of new management techniques, and in the application of new technology—it has received the blame for many problems which have coincidentally appeared.

In the latter half of the 1960's, concern over the consequences of the multinational corporation grew concurrently with U.S. domestic economic problems. During that period, the forces which had been eroding the traditional ability of the United States to compete internationally accelerated to such an extent that our trade surplus shrank precipitously and then disappeared. New import challenges arose from national economies which had finally overcame the destructive effects of the Second World War. American consumers responded enthusiastically to these new sources of high quality products at competitive prices. Although our exports grew an average of about 8 percent a year during the decade from 1961 to 1971, imports rose by about 12 percent a year during the same period.

The rise in foreign competition was not the only event that aggravated our international economic difficulties. The growing costs of the Vietnam war were imposed on an economy already at full employment, so that the country found it could not have both "guns and butter" without unacceptable increases in the general price level. Excess demand in the overheated economy induced a dramatic surge of imports. At the same time, inflation due to that demand contributed to the overvaluation of the dollar, a condition that, as part of a vicious economic circle, made imports to the United States cheap and exports from the United States expensive, thus accelerating the rapid import growth.

Upon taking office, President Nixon established as his top priorities ending the war and restabilizing the domestic economy. The economic adjustments required by each of these efforts were substantial and during their most difficult period required coping with rising unemployment as well as lingering inflation. During that period, some Americans were attracted to a new isolationism. That period produced various protectionist proposals as expressions of frustration at the inflation-produced international imbalance rendering our products uncompetitive; of unhappiness with trading partners whose economic rejuvenation we had paid for only to find our goods excluded from their markets by artificial barriers; and of fear that we might not be able to compete abroad again, even if all the barriers were dropped, because of our high wage rates. Thus, studies such as the one by Stanley Ruttenberg, a noted labor economist, argued for import restraints, restrictions on outflows of capital and technology, and tax penalties for the multinational corporations.

Fortunately, the Congress did not respond in haste to these restrictionist pressures. Instead, it gave the President's programs a chance to work. The results have been considerable: the war has been ended and in its place we have the beginnings of a rapprochement with the major nations of the Communist world. A shaky monetary system with its overreliance upon, and overvaluation of, the dollar has been shored up. The relationships between world currencies have been made more realistic, and a plan for the complete overhaul of the monetary system has been presented by the United States.

I have already mentioned the President's program to reform international trade through multilateral negotiations. These negotiations, scheduled at our request to begin in the fall of this year, have been endorsed by the Common Market, Canada and Japan, as well as other countries. Therefore, in this new atmosphere of progress and confidence about our future in the world economy, we can take a careful and dispassionate look at the activities of our corporations in other countries and their effects on our own country. In doing so, it is difficult to find much evidence that the multinational corporations, as a group, have damaged the U.S. economy or its workers. In fact, the hard evidence gathered to date would indicate the reverse.

A principal concern relating to the multinational corporations is their purported effect on domestic employment. The results of a recent Department of Commerce study of 298 U.S.-based multinational corporations for the period 1966–70 suggest that multinationals have helped, rather than hindered, the growth of domestic employment. The study showed, for example, that while overall U.S. private sector employment grew 1.8 percent a year during this period, domestic employment attributed to multinational corporations grew by 2.7 percent a year. The new Tariff Commission study, called for by this committee, makes some comparative estimates of domestic employment impact of the multinationals on various sets of assumptions. On a realistic set of assumptions about the share of the world market which U.S.

exporters would capture if there were no foreign subsidiaries of U.S. companies, the Tariff Commission found that multinational corporations create a net gain in U.S. employment of about one-half million jobs. The study indicates that only on unrealistic assumptions can one conclude that MNC operators cause a reduction in total U.S. employment.

In considering the impact of multinationals on employment in the United States, it is important to note the following facts that are sometimes ignored:

First, regarding exports and jobs created by exports, multinational corporations do not reduce exports, but rather increase both exports and jobs. As evidence of this point, the Department of Commerce studies indicate that between 1966 and 1970, exports of multinational corporations grew 70 percent faster than those of other firms.

Second, regarding imports, U.S. import competition mostly comes not from U.S. multinational corporations but from foreign-owned companies. This is especially true in the sensitive cases of textiles, steel, and automobiles. Indeed, the top three U.S. automobile importers by value are Volkswagen, Datsun, and Toyota. I think you will agree we cannot call them American multinational corporations. Indeed, the 1970 Commerce Department survey indicates that about 70 percent of the output of foreign subsidiaries of U.S. companies is sold in the country where it is produced, and an additional 23 percent is exported to third countries. Only 7 percent of the multinational corporation production returns as imports to the United States to compete here at home with domestic production. If you take out the effect of the auto agreement with Canada, only about 5 percent of the foreign output of multinational corporations is imported into the United States.

Third, in most of the few cases where U.S. and third countries are supplied by American affiliates abroad, such as the consumer electronic industry, elimination of these plants would not result in increased U.S. output and employment, but in replacement of our output by foreign competitors. Such replacement would probably reduce U.S. employment further since foreign competitors would be less likely to rely on the United States for machinery, supplies, research, or marketing requirements, or to maintain U.S. facilities for assembly or the base for possible domestic future production should technology change or foreign wage rates increase.

In those limited cases where low-wage rate imports do displace American workers we should not attempt to solve this problem by means of wide-ranging import restraints. Such a program would greatly reduce the potential of less-developed countries for development, a potential which is important to world political stability and would force all of our consumers, who are also workers, to pay artificially high prices for the products whose impotrtation has been stopped. Instead, we need, first and foremost, policies and programs which will keep the economy healthy enough to provide jobs for all American workers. In addition, we need the authority to prevent a flood of imports from inundating any single industry in a short time. To protect against this, the President, in the coming trade bill, will request the authority for safeguards to avoid short-term market disruption while economic adjustment to imports takes place.

Fourth, notwithstanding much rhetoric to the contrary, the evidence indicates that businesses do not normally move abroad to take advantage of low labor costs; 60 percent of U.S. direct investments abroad in 1970 were in Canada and Western Europe, not countries with notably low wage rates.

With few exceptions, U.S. labor has proven itself to be fully worth what it is paid. The very fact that so few industries have been forced to move abroad to meet the competition of cheap foreign labor indicates that the productivity of American workers substantially overcomes the effect of labor rate differentials.

There is one problem, however, in the area of employment which deserves our special attention. There are some plants which have moved or been established outside the United States to take advantage of low labor costs for the manufacturing of products which are intended to be exported to the United States. We understand that in many cases these actions are forced by competitive circumstances. But we are also aware that in some cases these actions are induced rather than forced—that plants are being lured into nearby countries with tax and other concessions. We have already taken action on a similar problem in the recent *Michelin Tire* case in Canada. There Canada had induced, through government subsidy, the Michelin Tire Co. to build a plant in an economically depressed area. This plant was designed to export most of its output to the United States. While we do not begrudge our Canadian friends the right to relocate jobs from Toronto in order to encourage economic development in less-developed areas of Canada, we do believe it is a matter of proper concern for us if the result is to move jobs out of Akron. In the *Michelin* case, a countervailing duty has been levied on imports from that plant. I can assure this committee we intend to use the tools we have to deal with this type of situation.

Another area of controversy surrounding the multinational corporations concerns their role in the rapid erosion of the U.S. balance of payments. Critics note the coincidence of the rise of the multinational corporation and the deterioration of the U.S. balance of payments. However, the evidence appears conclusive that the multinational corporations exert a highly positive influence on our trade and payments balance.

For example, the recent Commerce Department survey shows that in 1970 the multinational corporation produced a trade surplus of $7.6 billion as against a nonmultinational corporation deficit of $5.7 billion. This showing represented an improvement in the multinational corporation trade surplus by over $2.3 billion over 1966 figures, as against a deterioration of $4 billion for the nonmultinational corporations over the same period.

It is often charged that export of capital is a major contributor to the balance-of-payments difficulties of our country. The facts indicate that net private capital flows in 1972 will have contributed less than $2 billion to our 1972 deficit. Regarding multinational corporations specifically, their annual investment income is far greater than their annual capital exports: in 1971, the profits remitted to U.S. parent corportations as well as large patent and trademark royalities totaled about $10 billion, twice their capital outflow in that year.

Multinational corporations are also accused of transferring U.S. technology to foreign countries. The United States has—with justification—prided itself for Yankee know-how and ingenuity. Our economy remains the most productive and efficient in the world. The United States earns its higher wage rates by more capital per worker and greater output per man-hour than any other country, and its achievements in high technology products, such as computers and aircraft, need no recounting to this committee.

Despite our past accomplishments and current strength in science and its application to new products and production, it is now argued that the United States is giving away or transferring its technological leadership to foreign countries through the multinational corporations. Critics hold that too much know-how moves abroad because of multinational corporation production. They argue that the licensing of U.S. products and processes to foreign firms costs U.S. jobs and, because of increased imports back to the United States, is harmful to our trade account.

I would suspect that technology moves through so many channels that it is simply impossible to obtain comprehensive data on the methods, magnitude, or consequences of technology transfer.

Much of the knowledge moves through personal contact among scientists and engineers, through technical meetings, publications, and other informal channels. Thus, licensing is only one way of transferring know-how, and it is probably far less important than transfers of American management ability which would continue to occur even if these managers were forced to use foreign research and development.

Pure and applied science cannot be readily constrained and any system of "official reviews" would prove not only an administrative nightmare, but would also be ineffective as anything more than a temporary obstruction to a transfer. Such a system would also substantially reduce U.S. royalty income without any compensating benefits.

It is important to note that if U.S. patents are not filed abroad or are not exercised in foreign production, many nations allow royalty free exercise of the rights. Thus, statutory restraint on U.S. know-how in foreign production would lead foreign competition to take those markets which should have been captured by U.S. firms. Clearly we cannot permit this harmful result.

Perhaps the most important fact to note on this subject is the two-way flow of technology. Radar, penicillin, the Wankel engine, to name a few, illustrate gains for the United States from the importation and use of foreign technology. To ask that technology transfer be restricted in the hope of securing some special advantage to the U.S. economy would invite similar self-defeating restrictions on technology exports to the United States.

This committee needs no reminding that whatever questions have been raised domestically about the social and economic consequences of multinational corporations, governments abroad have also become far more concerned about these companies. Beyond the major seizures of U.S. property, such as the Anaconda and Kennecott expropriations in Chile, recent months have seen a spread of lesser controls over foreign investment, including the screening procedures currently under consideration by several governments of Europe and Asia and already adopted by others, including Canada.

Host governments in general grasp the benefits that accompany the transfer of new capital, improved technology, and managerial skills. Nevertheless, the message is clear: multinational corporations are now less popular or are unpopular not only among less-developed countries, but among some of our most prosperous trading partners.

Among the causes of host country antipathy is a fear on the part of many governments that some activities of multinational corporations are inconsistent with their national goals. In some cases, these countries look upon large multinational corporations as a challenge to their sovereignty. One example would be a decision by a multinational corporation to close a facility and transfer production for economic reasons, without what the host country considers adequate concern for the social consequences. The fact that many of the largest of these firms are United States-owned and operated does not diminish the fear of so-called "economic imperialism." Occassional extraterritorial application of U.S. antitrust or export control laws has increased this apprehension. The catalog of concerns also includes the fear that foreign control of key industries may hinder military and diplomatic policy. Some even charge that external control may perpetuate the so-called "technological gap" by freezing some nations into production and even educational patterns determined elsewhere. It is ironic that these charges are levied at the same time that domestic cities of multinational corporations allege that the United States is giving away our latest technology for an inadequate return, and when the United States is educating in our institutions of higher learning the largest number of foreign engineers, scientists, doctors, and technicians in our history.

We, of course, believe the proper role for the multinational corporations is to be good citizens in the countries in which they operate. This implies the duty to conduct operations within the constraints of good citizenship, plus the responsibility to accept all the obligations of citizenship. If they are, I believe that no country in the long run will voluntarily choose to rely solely on its own investment resources for long. Even countries which are ideologically antagonistic to private investment will welcome foreign investment on reasonable terms after having been given sufficient time and experience to evaluate the alternative for themselves and establish their own trade-off of autonomy versus prosperity. Recent experience with increasing receptiveness to private investment in Eastern European countries, evidenced by their interest in exploring new investment possibilities with Western entrepreneurs, confirms this analysis.

Certainly, the United States plans no barrier to the expansion of the $13.7 billion of foreign direct investment in this country. We welcome it; we hope it will increase. I am sure we all favor the jobs created by Shell, Lever Bros., and Nestle, all of which are multinational corporations based abroad.

My testimony would not be complete without a brief discussion of some of the alternative international economic proposals to be considered by this committee. Some of the proposals would seek to roll back imports through quotas, bar the outflow of U.S. technology and capital, and heavily increase the taxes of U.S. multinational corporations. As I have stated earlier, the administration is sympathetic to a number of the concerns provoking these proposals.

However, our experience indicates that balance-of-payments problems cannot be cured by reducing imports. Such attempts only invite retaliation against our exports, limit consumer choice, and increase prices for every American.

Instead of import quotas we need policies which will increase exports.

In its forthcoming trade proposals the administration will propose safeguards against the disruption of particular markets and production due to rapid changes in foreign trade. These safeguards will provide the opportunity to adjust over time to specific problems in specific industries, and will not entail gross costs to the entire economy nor invite retaliation.

The Treasury Department is in the process of studying the effects of our taxation of income earned abroad. While no administration position on this matter has been reached, I would expect that recommendations would be forthcoming shortly. However, I am not in a position to discuss today questions relating to taxes on foreign income.

At home we remain committed to reducing inflation. For the international economy this means increased competitiveness for our exports. We remain committed to fiscal responsibility in our efforts to hold down costs and prices and to raise productivity in the private sector. Combined with a more effective means of establishing currency parities and payments equilibrium, we seek an international economy more responsive to market forces, providing a better living standard for all Americans, and indeed for all the peoples of the world.

Mr. Chairman, that concludes my prepared testimony. I would like to say that as a courtesy I was given a copy over the weekend of the staff study prepared for your committee and I commend the staff for an exceptionally good piece of work.

Senator Ribicoff. Thank you very much, Mr. Flanigan.

Because of the large attendance at this hearing, in fairness to all the members, on the first go-around we will confine ourselves to 10 minutes each.

Mr. Flanigan, out of a total of short-term assets of $268 billion in the international monetary market, American banks and corporations control about 70 percent, or $190 billion. Do you have any idea to what degree the shifting of funds by American firms and banks contributed to the attack on the dollar in recent weeks leading to devaluation?

Mr. Flanigan. Senator, during the discussions leading up to our actions, that question was asked several times. We are not able to get accurate information, though the impression certainly in the early days was that most of those movements were not connected with American firms.

Senator Ribicoff. How can you determine what shifts took place in the $190 billion controlled by American firms, because it would not take too much of a shift to have caused the attack on the American dollar?

Mr. Flanigan. You are quite correct. It was a $6 billion flow of funds into Germany that essentially led to the recent devaluation. And it is very difficult to determine where those funds moved from. We did ask the Fed and from the best information we could get from them, which they admit is very sketchy, it did not appear in the early days that it was from American firms. I am, however, taking their comments on faith and I do not know myself.

Senator Ribicoff. In other words, our Government has no way of determining who was responsible for the shifting of the funds. The shift of $6 billion to Germany led to a quick profit of some $400 million. Do you have any idea who made that $400 million profit?

Mr. Flanigan. If we knew that, we would know who shifted the funds, Senator. We do not.

Senator Ribicoff. What steps is the administration taking to determine what caused the shift of funds and who was responsible?

Mr. Flanigan. The administration's efforts, Senator, are directed toward the underlying imbalances that made it possible for people to see the possibility of a profit. I do not know of any studies currently going on as to who moved the $6 billion into Germany.

Senator Ribicoff. Is your relationship with the German Government of such a nature that through cooperative efforts you could make this determination?

Mr. Flanigan. I am sure that the relationship is close but it may be that they, too, lack the information as to know who the ultimate owner of those funds was. However, I will certainly attempt to determine that for you and send you an answer.

(Mr. Flanigan subsequently supplied the following. Hearing continues on p. 24.)

Short-term Capital Movements

Recognizing that it is difficult to isolate the causes of the February and March 1973 currency flows which led to a proposed devaluation of the U. S. dollar, it is useful to consider the general subject of short-term capital movements. It has been suggested that such movements are sometimes caused by currency speculation. The term currency speculation has been frequently used to describe rapid short-term flows of funds among currencies in anticipation of exchange rate changes. It implies that such flows are solely motivated by the hope of windfall gains. Particularly in times of international monetary turbulence, currency operations to obtain a profit are often confused with hedging to avoid a loss. In practice, short-term capital moves across international boundaries for a variety of reasons.

The following examples are intended to demonstrate that protective business planning, as distinguished from speculation, may result in capital movements:

1. Residents of Country A, whose currency is expected to depreciate, may purchase the currency of Country B, which is expected to appreciate, to cover outstanding payment obligations in Country B's currency. These obligations may have arisen from imports delivered or contracted for, from bank or other loans (including interest payments on such loans), or from commitments involving investments abroad.

When Country B's currency appreciates, the capital gains on the foreign currency asset made by residents of Country A would offset the capital losses on outstanding obligations. Since the capital losses on obligations affect the books of the borrowing enterprise in Country A at the time when the exchange rates are changed (regardless of when the obligations are due), the acquisition of Country B's currency will have to have been entered in the books at the time of the exchange rate changes to avoid showing a loss.

2. Residents of Country A may purchase foreign exchange in anticipation of obligations that they expect to incur in the future. Such anticipations may include future imports, future investment abroad, or future foreign currency borrowing. In this case, the appreciation of the currency of Country B would appear on the books of the enterprise in Country A as a foreign exchange capital gain. These gains would protect the competitive position of the enterprise and assure that it may proceed with its plans without having to review the impact of the currency realignment on its costs.

3. Residents of Country B may have incentives similar to residents of Country A. Country B residents might borrow funds in the currency of Country A for conversion into their own currency for as long as they believe that this currency will depreciate. The amounts borrowed may be determined by receipts of Country A's currency anticipated in the future against the sale of exports or other types of contracts. The loans would be repaid after a judgment that the depreciation of the currency of Country A (or the appreciation of the currency of Country B) has been completed. Such borrowings by Country B residents would protect, for a given period of time, the competitive position of Country B exporters compared with producers of Country A or producers of third countries whose currencies may be linked with the currency of Country A. In other words, these operations are designed to gain for the producers of Country A a period of time to adjust to the competitive advantage which the currency changes would gain for the producers of Country B.

4. A resident of Country A may use his own funds, or borrow funds in his own currency to purchase the currency of Country B. Likewise a resident of Country B may borrow funds in Country A. After the change in exchange rates, the residents of Country A would sell Country B's currency for Country A's currency, and the residents of Country B would repay the loans in the currency of Country A. This type of transaction could be characterized as speculative in nature since it is not undertaken to meet actual or expected obligations, but merely to profit from exchange rate changes.

Unfortunately, present statistical information is not very useful in ascertaining the underlying motives for international transfers of funds. Accordingly, it is impossible to determine with precision the extent to which the February and March 1973 flows reflect efforts (a) to avoid a potential loss, (b) to maintain a competitive position, or (c) to obtain a profit based only on currency considerations.

The volume of transactions motivated by a desire to avoid potential loss or to protect competitive positions is probably very large. In 1972, the total volume of international trade exceeded $350 billion with many additional billions being paid for international services. The amount of obligations outstanding at any one time with respect to current or contracted trade in goods and services is substantial. Decisions by businessmen of countries whose currencies may depreciate to advance acquisition of foreign currencies to be used in payment for contracted imports and to delay the repatriation of export proceeds, at the same time as businessmen of countries whose currencies may appreciate are delaying the collection of import proceeds and are pressing for abnormally rapid transfers of export receipts, provide the potential for altering by many billions of dollars the demand and supply of particular currencies in the exchange markets in a short period of time.

Such variations in the timing of payments for shipments of goods, often referred to as changes in leads and lags, are a natural occurrence in periods when a relatively large change in exchange rates is widely believed to be imminent. This factor alone can require large purchases or sales of foreign exchange by monetary authorities seeking to support exchange rates.

There is no adequate basis for estimating the amount of liquid funds available at short notice for movement from one currency into another, whether held by multinational corporations or by others. The potential from existing balances is only one element; credit can also be used for such purposes. While liquid balances may be very large, there are various constraints on the use of many types of such assets and liabilities. Foreign holdings of dollar balances include short-term investments held by foreign governments and central banks in the U.S. amounting to about $70 billion and short-term holdings of foreign private individuals and institutions amounting to about $20 billion. A large portion of the liquid assets held by foreign official institutions in the U.S. is generally not shifted in such situations since the holders are well aware of the disruptive effects for the international monetary system. Furthermore, both official and private holders of short-term dollar assets have working balance requirements and other commitments which tend to make it difficult for them to reduce liquid assets below a certain level.

There are also dollar funds available for conversion into other currencies in the Euro-dollar market held by foreign official institutions and private individuals and institutions. The total liabilities of the Euro-banks in this market have been estimated at over $70 billion (at the end of 1971) by the Bank for International Settlements. This total appears to reflect a good deal of pyramiding and double-counting. In any case, only a portion of the funds in the Euro-dollar market represents demand deposits and other holdings that can be readily moved.

While information is sketchy, such evidence as is available does not seem to show that the Euro-dollar market had a strong influence on speculative flows in 1971 or in the recent flurry. Regarding the 1971 developments, the 42nd Annual Report of the Bank for International Settlements provides:

> "Even during the crisis months there was some flow of dollars to the reporting European banks, and the only lasting trace the developments in the exchange markets seems to have left is an increase in the importance of the non-dollar currencies. Similarly, the quarterly statistics do not lend much support to assertions that the Euro-currency market played a leading role in the exchange-market turmoils in 1971. If that had been the case, the figures for the crisis periods would have shown large movements by the reporting banks themselves out of dollars or large increases in their dollar lending to non-banks, which then might have used these funds for hedging or speculative purposes; however, neither of these things seems to have happened on a really large scale."

In theory, all liquid assets in the U.S. domestic economy held by banks, non-banking institutions and by individuals, as well as transactions between U.S. and foreign residents, are susceptible to conversion or management in a way which would give rise to international capital movements. Some of these transactions would come under the purview of the U.S. Government's capital outflow restraints and others would not.

Various types of estimates of the amounts of potentially volatile international flows can be constructed. All would be based on limited data and would be based upon differing assumptions. The important point is that marginal shifts in short-term dollar assets and liabilities into other currencies can generate relatively large capital movements. This potential exists irrespective of who originates the transactions and which channels are used.

As the foregoing discussion suggests, there is no precise data that would establish the extent to which U.S.-based multinational firms may have been responsible for the capital flows which were associated with the currency realignments that took place in early February, and the crisis in European exchange markets which erupted in early March. It is certainly possible that U.S. multinational corporations and their affiliates participated in these currency movements, presumably largely for protective business purposes. On the other hand, transactions originated by foreign holders or borrowers of dollars may well have played a substantial and perhaps even a predominant role.

Much of the post-World War II period has been characterized by a general liberalization of restrictions on the international movement of capital, and a consequent trend toward integration and internationalization of capital markets of the major industrial countries. These basically desirable developments have also increased the potential for international flows of liquid capital and for destabilizing speculation. For some time, this problem has received close attention in the United States and abroad.

An essential element to remedy speculative capital movements is agreement on a more effective process of international payments adjustment to help avoid the build-up of large, persistent disequilibria and resulting speculation on the possibility of large exchange rate changes or imposition of controls. Behind the increasing frequency and severity of exchange market crises in the late 1960's and early 1970's was the development and growing recognition of major imbalances in underlying international payments positions among the industrial countries. Adjustments to correct these imbalances were inadequate and too long delayed, providing clear opportunities for speculation on large changes in exchange rates. Improvement of the adjustment process is a central issue in current negotiations on reform of the monetary system.

At another level, specific techniques of combating speculation have been considered or implemented by individual countries from time to time. Wider margins of exchange rate variation around established central values and adoption of temporarily floating exchange rates may be used. Both techniques increase the potential losses associated with, and thus tend to dampen, speculative activity. Operations in the forward exchange markets can also be used to reduce incentives for speculative flows. Such techniques and the more basic questions concerning the adjustment process are under discussion in the Committee of Twenty on international monetary reform.

The problem of short-term capital flows is certainly one of the central issues in monetary reform. Our efforts are directed toward designing a monetary framework within which capital movements can take place in the international market without unduly straining the system and without stimulating countries to use controls in lieu of basic measures of balance of payments adjustment.

Senator Ribicoff. I think that is going to be very important as this committee gets into the trade bill and tax proposals. In order for us to determine what trade legislation we should approve, we are going to need this kind of information.

Now, I have been reading in the press about the President's consultations with Mr. Meany over the Burke-Hartke bill. I do not know whether the press reports are accurate as to what Mr. Nixon said or what Mr. Meany said. Of course, Mr. Meany will be here next week. The issue that concerns me and, I think, every member of this committee as we consider trade legislation is what impact does the multinational corporation and our trade policies have upon jobs and industries in our States?

You indicated that multinationals created, not took away, jobs. Now, all of us have been under the impression that our nation's bag is high technology. This is the area of production where we have a lead, where our employment stays high and our exports high.

I wonder, Mr. Best, if you will give Mr. Flanigan a copy from bulletin 1312 of the Labor Department dated December 1972.

Let me take an industry prominent in my own State of Connecticut; aircraft engines and engine parts. This is high technology. The United States is supposed to be preeminent. We are supposed to have almost a monopoly.

In September 1969 we had 114,700 production employees, September 1972, 74,100, a net change, minus, of 40,600 or 35.4 percent. Nonproduction employees went down from 90,200 to 64,600, a net change of 25,600 jobs, percentage, minus, 28.4.

What happened there? Now, this is high technology.

Mr. Flanigan. Senator, the suggestion as I understand it, is that the decrease in employment for aircraft engines and engine parts arose because we were importing foreign engines and engine parts, and I do not believe that that is necessarily true. In fact, I would seriously doubt that it is true.

The engine and engine parts importation in September of 1972 would be limited, I would guess, to a few Rolls Royce engines that went on the L-1011. It may very well be, and I think the answer to your question would probably lie in a significant decrease in aircraft engine and engine parts production, not necessarily imports. And this could well be caused by a change in our procurement policies, i.e. in the fact that we had an excess production capacity in 1969, and that the administration has changed the emphasis from defense spending to human resources spending, that we had to move these people, not because of imports but because of the structure of our society, into other jobs.

Senator Ribicoff. Well, what bothers me is that we are taking a terrific beating on low technology goods and the implication is that production of high technology goods will absorb the people we are losing in low technology goods. For the next 10 years we have to be prepared to absorb an increase of 20 million in our labor force. As you look through these figures of high technology employment, we keep on losing substantial numbers.

Where in the American economy will we absorb the 20 million additional employees in the next 10 years?

Mr. Flanigan. I would guess, Senator, that this is analogous to what has happened on our farms. Our farmers have become enormously more productive, the most productive farmers in the world, and we are able not only to feed ourselves but to feed a good part of the free world, certainly when it gets in trouble, with 4 percent of our people at work on the farm.

The same is going to be true and should be true, it seems to me, with regard to our manufacturing employees. If they are to have a continually rising standard of living, the kind of standard of living that we want, they are going to become more and more productive and they will, therefore, in many instances meet our requirements with a smaller proportion of manufacturing workers. New entrants into the labor market will be increasingly absorbed in providing other requirements for the American population, more and better housing, things connected with their leisure time, but not necessarily the same proportion of our total work force will be in manufacturing any more than we would have thought it appropriate to keep the same proportion of our total work force on the farm.

Senator Ribicoff. But we are faced with a basic problem. Last year we had Japan with a $19 billion surplus, and Germany a $16 billion surplus in manufactured goods while we had a $7 billion deficit. Can this continue indefinitely? Can the United States afford to lose its basic industries? Can any major nation allow its basic industries to be shattered and not maintained?

Mr. Flanigan. No. sir; it cannot. And while I do not think that the previous question which had to do with the total number of people at work, the total portion of the work force in manufacturing industries—that the answer to that necessarily means we have to maintain that proportion. We certainly cannot allow our industry to be, as you put it, shattered. In fact, if the United States is going to continue to lead the free world, and that implies massive expenditures abroad in the defense area, if we are going to meet the commitments that we have expressed for ourselves in the aid area, if Americans are going to continue to travel abroad as freely as they have, with the resultant effect on our balance of payments, then not only do I believe we cannot accept a trade deficit but we are going to have to have a trade surplus. It is the purpose of the policies both with regard to the domestic economy and in the international field—in the trade negotiations and the system—to again put the United States in the position of having a trade surplus, the net result being a balance in our overall basic accounts.

Senator Ribicoff. In another field that you must be examining, defense costs and development assistance, in fiscal 1973 we will be spending something like $17½ billion in foreign assistance and loans. Germany and Japan, which have these large trade and payments surpluses, will be expending a much smaller amount, and a comparitively tiny percentage of GNP on defense. You can find the figures on pages 36 and 37, I believe, in the pamphlet you now have.*

Do you think we can continue to expend such huge sums of money while Germany and Japan get away relatively scott free, or do you believe the time has come that the United States insist that Germany and Japan carry their fair share?

Mr. Flanigan. Well, in the first place, Senator, I think it is important to take out of those figures the Export-Import Bank financing. That is a short-term financing of exports which in many cases in months and in some cases in years becomes an inflow for our balance of payments. So that I think we ought to use the foreign assistance figure which is still a very substantial figure.

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*See pp. 432 and 433 of this hearing.

Senator Ribicoff. Take out that $7 billion Export-Import Bank figure and you still have $10 billion.

Mr. Flanigan. That is correct, and in that instance you will see that, as you compare the table on page 36 with the table on page 37, our competitors abroad are to some extent matching and in a few instances exceeding us in the relative size of their contribution to development assistance. It is in the area of military spending, where we bear the bulk of the burden.

Certainly, we are energetic in urging and negotiating for burden sharing in this area and I think that we have every right to expect in today's world a greater degree of burden sharing. The mutual balance force reduction discussions have an implication for the cost burdens and I would expect that as time goes on, these differences would narrow significantly.

Senator Ribicoff. Senator Fannin.

Senator Fannin. Thank you, Mr. Chairman.

Mr. Flanigan, I certainly commend you for placing this subject into proper perspective. I consider your statement a profound one on the position of the multinational corporations in our economy.

I would like to clarify, Mr. Flanigan, a statement or two that you made. You stated that we must not fall prey to the expedient of adopting an alleged cure which is in fact completely unrelated to the true problem. Before that you talk about carefully analyzing the real causes and you refer to dumping or subsidized exports as if they are not the real causes.

Now, do I misunderstand you?

Mr. Flanigan. Yes, sir; you do, and I apologize if I gave that impression. We think that we have to take action where called for in the dumping and in the countervailing duty area and we have done so, as you know.

Senator Fannin. Oh, absolutely.

Mr. Flanigan. But the other comment was directed more at the suggestion that imports or that multinational corporations, rather, are a cause of employment decline, and that in order to avoid that erosion to our own domestic employment, we should restrict multinational corporations.

Senator Fannin. Well, I am pleased with the clarification because as it is stated, I am afraid it would be misunderstood.

In your statement you say the productivity of American workers substantially overcomes the effect of labor rate differentials.

Are you suggesting that the productivity of Japanese or German workers is lower than our own?

Mr. Flanigan. It certainly is with regard to computers and aircraft and agricultural products and many other things that we export around the world.

Senator Fannin. When we talk about agricultural products I think we are certainly not in a position to compare Japan and the United States because they just do not have the land area, they do not have the opportunity; so I think it would be improper to make that comparison.

Now, if we talk about other industries, the automotive industry, for instance, do you consider that to be a factual statement?

Mr. FLANIGAN. Subject to the recent devaluation, I think that it might be, might well be, that our workers produce a competitive automobile to the Japanese automobile workers even though not perhaps in every price range or perhaps in every class. However, Japanese automobiles are allowed in here with relative freedom and while they increased their share of the market dramatically in some places, on a value basis they are still a minor part of the U.S. automobile market. And I would warrant if our trade negotiations resulted in free access and fair access of American automobiles in Japan, we would find that some Japanese citizens, given the current relative value of the dollars in the end, would like to have some American cars. It is the purpose of our negotiations in the fall to gain that kind of access.

Senator FANNIN. I agree with you that some would. Of course, some of us were in Japan and talked to the Japanese in this regard and the only American cars that we observed were at the American Embassy. So it did not seem to give us very much confidence.

And another matter, the first statement that was made to us by our Ambassador in Japan was that the Japanese are guilty of unfair labor practices; they like to work. And that was one of the statements that we brought home with us and it gave us a lot of food for thought.

Now, do you feel that we are being discriminated against in our trade with Europe, Japan, and Canada?

Mr. FLANIGAN. In certain instances, and it is the purpose of our negotiations to overcome that discrimination. Certainly, each area is different and we will approach them on different bases, but there are in each of those areas some discriminatory practices which we would like to see removed.

Senator FANNIN. Well, as I stated before, I was very impressed with your remarks but I do have these suggestions. I think we should look to GATT, to the General Agreement on Tariffs and Trade. How many members are there of GATT? Well, over 100 members?

Mr. FLANIGAN. A very large number; I do not know exactly.

Senator FANNIN. And quite a number of them are associated directly or indirectly with the Common Market. Then, of course, there are very few times that the GATT members have voted with us. I am just wondering how you expect with our meeting—I think it is in September; is that not right?

Mr. FLANIGAN. We hope it will start in September, Senator.

Senator FANNIN. Well, then, how do you expect we can negotiate advantageously or with equity under the conditions that exist? Here with all these years we have the Japanese importing cars, other countries, too, at 3-percent tariff and we, of course, have a very difficult time as you stated, getting cars into Japan, and when we were in the position of them building an industry and we could get some cars in there, American Motors, I recall, were building a small car that was acceptable in Japan, but that it cost maybe 60 or 70 percent of the price of the car, maybe not with just tariffs—I think the tariff barrier was 17 percent and the nontariff barriers were 40 or 50 percent. So, how do we overcome that? What do you feel can be done to overcome that inequity?

Mr. FLANIGAN. Senator, I think that, first, in order to put the discussion on these inequities in balance, it would be unfair to suggest that we are sinless in this area. We have some of these restrictive practices ourselves. But clearly, in our opinion, we are more sinned against than sinning and if we are to get equity, we ought to at least bring that sinning level abroad down to our level. Maybe there is a benefit in all of us being a little pure but in any event, we do not want to continue to be more sinned against. I do not think, however, it behooves us to suggest that we are entirely pure.

But with regard to Japan and our negotiations with other nations, we are not entirely powerless in these discussions, GATT voting rules notwithstanding. Our market for Japan is essential and it is enormously important also for our European friends. We believe that we can benefit by their imports and that they can benefit by our exports to them. We expect to come before you and ask you for authorities that will allow the President in these trade negotiations to be able to offer a combination of encouragements and discouragements that will result in entry, fair entry, into those markets. We think that you will see the wisdom of those proposals.

Senator FANNIN. Well, of course, the years we have talked about a quid pro quo with the Japanese and we talk to them about fair trade and they say, well, we went free trade but there certainly has not been any free trade and unfortunately, do you not agree that it is the labor-oriented merchandise, articles, that have been involved where we have been at the losing end with Japan? They manufacture the articles that take the jobs away from our workers and, of course, now they buy our agricultural products as you stated, but very few jobs are involved. Is that not one of the very serious problems?

Mr. FLANIGAN. I think the problem with the Japanese is that they have been getting worse but they have not been getting better quick enough. They are beginning to recognize, themselves, that they have an obligation to change their restrictionist policies and to change them in the near future. The Prime Minister indicated even after the floating of the yen that they were determined to open their markets soon to a greater degree for U.S. investments and for U.S. imports, and we believe that that will help to redress this imbalance.

Senator FANNIN. Well, I commend you and the administration. But our imbalance of trade with the Japanese continues to increase from, say, around $2 billion in 1971 to around $4 billion or more in 1972, and then the wage rates as I understand it are still a tremendous inequity.

In 1971 the U.S. worker in the manufacturing industry was being paid $4.46 an hour on the average, with fringe benefits and all, the Japanese a $1.44. This is going to be a very difficult matter as far as making up that differential. You can take all the percentages that have come about but do you think that this gap is closing?

Mr. FLANIGAN. I believe it is closing very substantially by virtue of the two revaluations of the yen. That alone would put the Japanese wage rate above $2. In addition, their inflation rates have been significantly higher and their wage increases have been significantly higher in 1971 and 1972. So, yes, I think it is closing, and I think the American worker by virtue of the capital that is behind him, even given the practice that Ambassador Ingersoll attributes to the Japanese worker. is still more productive because he has more capital, more technology, and better management behind him.

Senator FANNIN. Well, thank you very much.

Mr. FLANIGAN. Thank you.

Senator RIBICOFF. Senator Nelson will defer to Senator Mondale.

Senator MONDALE. Thank you, Mr. Chairman.

I understand from your testimony that you do not wish to and cannot state the administration's position on taxation of multinational corporations' foreign earnings, so I won't press you on that, but I would like to ask some technical questions surrounding that issue.

According to a memorandum prepared by our staff, in 1970, U.S.-owned affiliates abroad paid only $640 million in U.S. taxes on the $11 billion earned by those companies, or slightly less than 6 percent of their taxable income. They made a calculation that if that production occurred in the United States, the U.S. Government would have collected over $5 billion in taxes.

I would ask unanimous consent, Mr. Chairman, that this very useful table appear at this point in the record.*

Senator RIBICOFF. Without objection, the entire committee print, the Multinational Corporation and the World Economy, an excellent publication, will go into the record.**

Senator MONDALE. This document shows that in 1970 taxable income was $11 billion, foreign taxes paid was $5.6 billion, and taxes paid the U.S. Government on foreign-source income only $640 million. And under manufacturing, $7.7 billion taxable income, only $300 million was paid in 1970 in that category; and in mining, $1 billion plus was earned in taxable income, and nothing was paid to the U.S. Government on foreign-source income.

I guess what I am asking—in addition to the question of the overall balance of payments and the question of jobs—don't we also have an important question of the revenue implications of overseas production? In this case it looks like we are getting only 6 percent in taxes on the income from foreign-earned sources.

Does that not create a very serious erosion problem for U.S. revenues? Does not that loss have to be picked up then by other taxpayers?

Mr. FLANIGAN. Without attempting to prestate any administration position, Senator, taking all industries, they did have taxable income of $11 billion in 1970; and according to these figures, which I have no reason to dispute, they paid something like $6,300 million, or paid taxes on that of 63 percent.

A very great bulk, as was pointed out, was paid to the host country.

Now, if we were to suggest that all that taxable income should be taxed in this country, that would in no way presumably set aside the tax paid in the host country, and quite probably that investment would cease to be attractive to an American investor and he would sell. In that instance, we won't have the $640 million; we won't have the jobs that the Commerce Department and Tariff Commission studies indicate come from those jobs.

In the case of resources, where you point out there were no taxes paid here though there were very substantial taxes paid abroad, we won't have control of the oil and other essential raw materials for our industry, and it seems to me that in determining the appropriate and equitable tax policy, we have to keep those considerations in mind as well as the figures that are set forward in table 4.

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*See p. 414.

**See app. A, pp. 393 ff.

Senator MONDALE. Your answer is based on what would be in your opinion the impact of denial of credit for foreign taxes paid.

What about the wisdom of requiring annual repatriation of income, nondeferral of income for the purpose of Federal income taxes?

Mr. FLANIGAN. Senator, that is one of two major proposals that have been made, and we are studying all of these proposals, and I hope you will forgive me if I defer on answering that until the administration's position is clear.

Senator MONDALE. I am not trying to crowd you on that. What would be the Federal revenue implications of the nondeferral of foreign-earned income, quite apart from whether we should do it or not? How much revenue would the U.S. Government pick up if foreign earnings were taxed annually as are domestic earnings?

Mr. FLANIGAN. I can't answer that question, and I don't believe anyone can with certainty, because you have to make some assumption that people owning those productive assets would find it more profitable to sell the assets and get out of the business than incur a higher degree of taxation.

Senator MONDALE. I think you have a stronger argument on the credit than you do on the deferral. In other words, this assumes the continuation of the credit, but it says that annually the foreign-earned income must be reported and included in Federal income taxes just as domestically earned income is.

Maybe you disagree, but I don't think there is the same argument that that is as great a discouragement, at least, as the credit.

Mr. FLANIGAN. I agree it is not as great a discouragement, but it is still a discouragement. It would, in fact, increase the incidence of tax on that investment and, therefore, decrease the level of profit on that investment, and the owner would have to determine whether it was better to hold that asset and to receive a lower level of income on it than would be the case with regard to another owner. He would have the opportunity of maximizing his value by selling it to somebody who would be paying a lower incidence of taxes, and that is why I can't answer your question.

Senator MONDALE. I am told the Treasury estimate is $170 million in revenue. I won't press you on that.

Mr. FLANIGAN. I don't have any idea.

Senator MONDALE. As of February 26. If what you say is correct then, does that not support the position that the privilege of deferring the tax on foreign-earned income in fact encourages multinational corporations to place job-producing plants overseas rather than in the United States, simply for the opportunity to duck the Federal income taxes annually on that income?

Mr. FLANIGAN. Clearly, Senator, the deferral makes more attractive the investment abroad, but I would debate the job-producing point if you mean by that on the adverse, job subtracting from the U.S. point of view. Certainly those investments abroad produce jobs, but the indications are that those investments abroad also produce jobs in the United States.

Senator MONDALE. Let's take Corporation A and all things are equal. It has the option of opening up a plant somewhere in the United States or somewhere, say, in Europe, and the other cost figures are equal. Does not the deferral of taxes on foreign-earned income, which cannot occur in the United States under the Federal income tax, create an incentive for taking jobs that would have been produced here in the United States, overseas?

Mr. FLANIGAN. If everything else were equal, you could perhaps reach that conclusion, but the fact that this opportunity so-called, exists and yet to a very large extent the production overseas doesn't come back here, would seem to indicate that other things aren't equal, that the investments overseas by and large are not made in order to export back to this country, and only a very small portion of manufactured goods are exported back to this country. Investments overseas are made for other reasons in order that American investors be competitive overseas. Until to date this administration and the Congress have not requested taxes on defered income. Either what will be suggested by the administration or put into law by the Congress, I have no idea.

Senator MONDALE. Just one final question. What does Japan do the other way around, or what does West Germany do? Do they permit one of their multinational corporations with foreign-earned income to defer that income for the purposes of their taxes? Do they grant credits? What is the reciprocal tax treatment in the reverse circumstance?

Mr. FLANIGAN. It is my understanding that most developed nations treat foreign earned income as totally foreign and do not under their code attempt to reach out and tax it even to the degree that we do here, that they are much more forthcoming, if you will with regard to foreign earned income than the current United States Code.

Senator MONDALE. Would you submit for the record an analysis of what our major trading partners do by way of treating this problem from their standpoint so we might look at that?

Mr. FLANIGAN. With pleasure.

(Mr. Flanigan subsequently submitted the following. Hearing continues on p. 66.)

Taxation of Foreign Source Income by Nations Other Than the United States

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The Council on International Economic Policy was asked by the Subcommittee on International Trade of the Senate Committee on Finance to provide information regarding the tax treatment by other nations of their own multinational firms (taxation of foreign source income). The attached material concerning this subject examines the tax systems of thirteen countries, including most Western European nations and Japan.

Although it is difficult to generalize concerning the effect of foreign tax systems with respect to the taxation of foreign source income, it should be noted that despite varied approaches to taxation (worldwide, territorial, and varied forms of exemptions and credits), not one of the nations here considered taxes currently the undistributed profits of a foreign subsidiary controlled by local residents. If the U. S. were to tax the undistributed profits of U. S. controlled foreign corporations on a current basis, this would place U. S. foreign operations at a disadvantage and would constitute a departure from the general scheme of international taxation practiced by other nations.

In addition to recognizing that none of these countries tax currently the undistributed profits of a controlled foreign subsidiary, it is important to recognize that each country provides for elimination of double taxation by use of a credit mechanism, reduced rates, or other exemptions for repatriated foreign source income. If the U. S. were to eliminate or substantially alter its present foreign tax credit system, this would also be inconsistent with the international tax practices of other nations.

This study summarizes the basic rules of the following countries with respect to taxation of foreign source income: Belgium, Brazil, Canada, Denmark, France, Federal Republic of Germany, Ireland, Italy, Japan, the Netherlands, Norway, Switzerland and the United Kingdom.

The consideration includes: (1) taxation of income of foreign branches of domestic corporations; (2) taxation of foreign subsidiaries of domestic corporations; (3) taxation of interest, dividends and patent royalties received from abroad; and, (4) treatment of foreign taxes paid by domestic corporations and their subsidiaries. In certain instances, a brief discussion of a particular country's intercompany pricing practices is provided.

Belgium

Taxation of foreign source income.

Belgian corporations are taxable on their worldwide income. However, income of a foreign branch which is located in a country with which Belgium has an income tax treaty is generally exempt. Income of a Belgian corporation generated by a permanent establishment and taxed abroad is taxed at one-fourth the rate applied to income from domestic sources, as is income from foreign real property owned by domestic companies. Income is "generated abroad" when the activity which produces it is carried on abroad. It is deemed to be "taxed abroad" if it is subject to regular tax in the source country even if in fact it is exempt from tax by the host country because of special rules such as, for example, a temporary tax holiday granted by the host country. Special ordering rules for losses are provided so that losses incurred by foreign establishments must be offset first against other tax-exempt foreign profits, then against foreign profits taxed at reduced rates, and lastly against domestic profits. Income from real property owned by domestic companies and located abroad receives the reduction to one-fourth the normal tax rate.

Taxation of foreign subsidiaries.

Non-resident corporations (including those controlled by Belgian residents) are taxed only on Belgian source income. Only five percent of the dividends received by a corporation from another corporate entity are subject to tax. This applies to dividends from both domestic and foreign corporations; foreign source dividends are subject on receipt to a *précompte* tax of ten percent of the dividend (discussed below) and the 95 percent inter-company dividend exclusion applies to the dividend net of the *précompte*.

Inter-company pricing.

While Belgium has no fixed rule regarding how much of the combined manufacturing and sales profit can be allocated to the foreign sales subsidiary, and while the Belgian authorities do have the power to reallocate the profits between the related companies, it appears that in practice the Belgian tax authorities have been lenient in allowing income to be assigned to the foreign subsidiary.

Interest, dividends and royalties from abroad.

Interest or patent royalties from abroad are included in their net amount for purposes of determining the Belgian corporate income tax. A fixed credit equal to 15 percent of the net amount received is allowed if the income has been subject to tax in the foreign country. Foreign source dividends are subject to tax (called "précompte mobilier") at the rate of ten percent of their net amount. Ninety-five percent of the dividend remaining after assessment of the "précompte mobilier" is exempt from the company tax.

Treatment of foreign taxes.

Unilateral relief from double taxation is granted in the form of the reduced rate of tax discussed above under foreign source income and in the form of a deduction from income received from abroad before assessing the "précompte mobilier".

Brazil

Taxation of foreign source income.

Resident corporations are taxed only on their domestic income. Income of a foreign branch or agency must be taken into the accounts of the Brazilian corporation and dividend taxes are payable upon its distribution but it is not taxable currently.

Taxation of foreign subsidiaries.

A foreign corporation is taxed only on its income earned in Brazil. In the case of sales this generally means sales through an agent in the country. Foreign subsidiaries of Brazilian corporations are not taxed currently on profits earned abroad and distributions from such corporations do not appear to be included in the gross income of the Brazilian corporation. However, the income attributable to distributions from a foreign subsidiary will be subject to Brazilian dividend tax when distributed by the Brazilian corporation.

Interest, dividends and royalties from abroad.

Payments for interest, dividends and royalties from abroad appear to be exempt from tax when received but subject to the dividend tax when distributed.

Treatment of foreign taxes.

Because foreign source income is generally not subject to tax in Brazil, there is no adjustment for foreign taxes.

Canada

Taxation of foreign source income.

Resident corporations are subject to tax on their worldwide income. Relief from double taxation on foreign source income is given by way of a credit for the foreign taxes paid or by way of exemption through tax treaties.

Taxation of foreign subsidiaries.

Non-resident corporations are taxed on income from the conduct of a business in Canada. If a foreign corporation is a foreign affiliate of a Canadian taxpayer special rules apply. A corporation is a foreign affiliate if it is controlled by the taxpayer either alone or together with other related taxpayers, if 25 percent of its voting shares, or 50 percent of any class of shares are owned, directly or indirectly, by the taxpayer, or if ten percent of its voting shares are owned by the taxpayer, and the taxpayer elects to have the corporation qualify as a foreign affiliate.

The income of a foreign affiliate is generally not taxed currently. An exception is provided in that a Canadian shareholder of a foreign affiliate is required to include in his income currently his proportionate share of the affiliates investment income and capital gains whether or not distributed. Dividends received by a Canadian corporation from a foreign affiliate are exempt from tax to the extent they are paid out of pre-1976 profits. Dividends paid out of post-1975 profits are exempt if earned in a country with which Canada has a comprehensive treaty. If the dividends are earned in a non-treaty country the dividends are taxable in Canada, but are partially exempt, the exemption depending upon the amount of foreign tax paid by the affiliate and the amount of any withholding tax to which the dividend may have been subjected.

Interest, dividends and royalties from abroad.

Interest, dividends and patent royalties must be included in the gross income of a Canadian recipient subject to a credit.

Treatment of foreign taxes.

A foreign tax credit is allowed to provide unilateral relief from double taxation where the income is not exempt under treaties. Under the new law the credit is allowed up to the effective Canadian rate on the foreign income. After 1975 the credit on investment income of individuals will be limited to 15 percent, with the excess over 15 percent being deductible. In the case of business income a carry-over of any excess credit is provided.

Denmark

Taxation of foreign source income.

Danish corporations are taxed on worldwide income. However, in the case of income attributable to a foreign permanent establishment, or from shipping between foreign ports, or from engineering or contracting operations in a foreign country, the Danish tax is reduced by approximately one-half.

Taxation of foreign subsidiaries.

Non-resident corporations are taxable only on income attributable to a permanent establishment or real property located in Denmark. This rule applies to foreign subsidiaries of Danish corporations. If a resident corporation owns more than a 25 percent interest of the shares in another corporation (foreign or domestic), the parent company's income tax on its total income is reduced by that part of the income which is proportionally attributable to the dividends received from the subsidiary.

Interest, dividends and royalties from abroad.

Interest, dividends and patent royalties recieved from abroad are included in taxable income of a resident corporation but the Danish company can credit foreign taxes against total tax in an amount equal to the foreign tax paid or the Danish tax attributable proportionately to the foreign income, whichever is less. The same rule applies if the income is derived through a foreign permanent establishment.

Treatment of foreign taxes.

A credit is granted for foreign taxes paid with respect to all foreign income. In addition, credits are granted against interest, dividend and royalty income as discussed above.

France

Taxation of foreign source income.

French resident companies are subject to company income tax only on income from commercial and industrial activities carried on in France. Normally, corporations located in France are not subject to tax on income earned abroad through a permanent establishment, permanent representative, or a completed cycle of commercial activity (such as the purchase and sale of merchandise). In order to be excluded, the profits must be derived from the active conduct of a business located abroad. Losses incurred from these foreign operations may not be offset against French source profits. However, certain expenses related to the establishment of foreign branch sales offices are deductible for a limited period of time commencing with the first year of operation of the branch.

A resident company may apply for authorization from the Ministry of Economy and Finance to have the company income tax applied to either its worldwide profits and losses or to consolidated profits and losses, which would include profits and losses of subsidiaries (see discussion below).

An additional tax of 50 percent (the "précompte") on net distributions is payable by a resident company if (as far as is relevant here) the income distributed has not been subject to tax at normal rates. Foreign source income would thus be taxable subject to the précompte unless the company elected to be taxed on worldwide income.

Taxation of foreign subsidiaries.

As discussed above, a foreign corporation, including a subsidiary of a resident company, which does not conduct business activities in France is not subject to the company income tax on foreign source income. This exemption does not depend on the nature of the income; therefore, the exemption applies to pure holding companies as well as operating companies.

A French parent company is entitled to exclude from income 95 percent of the dividends received from a foreign subsidiary, whether or not the foreign subsidiary is subject to tax in its resident jurisdiction. A parent company is any French corporation: (1) owning ten percent of the capital of the payor corporation, or (2) having a share interest costing more than ten million francs, or (3) having a share interest originally costing two million francs and which represented more than ten percent of the company's capital but which, as a result of later stock issuance, represents less than ten percent of the capital of the payor corporation.

Upon distribution, a French company must pay the précompte equal to one-half of the dividend to the French Treasury with respect to profits that did not bear the normal 50 percent French corporate tax rate. At the shareholder level, the shareholder is entitled to a credit equal to one-half of the dividend, which is applied against his personal tax on the dividend grossed up by the credit. For purposes of determining whether the précompte is payable with respect to a particular dividend distribution the French company may arbitrarily determine the earnings from which the dividend is deemed paid. Therefore, if distributions are allocated first against manufacturing income on which the normal corporate tax has been paid no précompte is due unless the dividend exceeded the available manufacturing income. The result could be to shield the dividends from foreign subsidiaries from practically all French tax.

In addition, a 50 percent owned foreign subsidiary may be included in the consolidated return system discussed above.

Intercompany pricing.

France applies an arm's length standard for intercompany sales of goods. Profits indirectly transferred to controlled enterprises outside of France through intercompany pricing are to be reallocated on an arm's length basis and such adjustments may be based on comparison with the operations of similar enterprises operating normally. While France has complete procedural rules for challenging intercompany pricing, there is evidence that where exports are involved the pricing rules are loosely applied. Exporters holding a "carte exportateur" (exporter's card) are entitled to a relaxation of the arm's length pricing rules. It is understood that, under administrative interpretation, the rule has not been employed where exporting enterprises holding the "carte exportateur" can establish that sales made by a parent French corporation to foreign subsidiaries at prices approximating cost do not have as their objective the shifting of income but are due to "commercial requirements."

Interest, dividends and royalties from abroad.

Interest, dividends and patent royalties received from abroad are subject to the company income tax, but foreign taxes imposed on these payments are deductible in computing taxable income. Royalties, interest and dividends earned through a foreign permanent establishment are exempt under the general rules discussed above.

Treatment of foreign taxes.

Foreign income taxes relating to exempt income are not deductible or creditable while foreign taxes relating to income taxable in France are deductible. If the French company elects to be taxed on its worldwide income foreign income taxes on dividends, interest and royalties are creditable, other taxes are deductible.

Federal Republic of Germany

Taxation of foreign source income.

A resident German corporation is subject to the company income tax which is levied on worldwide income. Nonresident corporations are taxed only on income from German sources. A corporation is considered to be a German corporation if its main office or seat of management is in Germany.

In addition to the company tax, a business tax is levied on all business establishments located in Germany. Profits attributable to a foreign permanent establishment are excluded from the tax base for purposes of determining the business tax.

Taxation of foreign subsidiaries.

The income of a foreign subsidiary of a German parent corporation is not included in the parent company's income until remitted to it in the form of a dividend or other distribution. Dividends paid to the parent are included in full in its taxable income subject to a credit for foreign withholding taxes paid. Lump sum taxation at the rate of 25 percent may be granted on dividend income from a 25 percent or more owned foreign subsidiary. By treaty, however, Germany usually does not include in income dividends received from subsidiaries where the German parent owns 25 percent or more of the stock of the subsidiary. Under a 1965 decree, where income is transferred under abnormal conditions to affiliates located in tax-haven countries, the transactions may be set aside and income taxed currently.

Under limited conditions, the losses of a newly acquired or established foreign subsidiary may be used to defer taxes on the parent's income for five years. The losses must be recaptured after the five years or when the subsidiary becomes profitable. This provision applies only to manufacturing and trading subsidiaries which are 50 percent or more owned.

Intercompany pricing.

Strict arm's length pricing rules are provided, and they are strictly enforced.

Interest, dividends and royalties from abroad.

Income from patent royalties, dividends and interest received from abroad must be included in taxable income subject to a credit for foreign taxes paid.

Treatment of foreign taxes.

A credit for foreign withholding taxes paid on foreign source income is granted against the company tax. Foreign income taxes paid with respect to royalties, dividends and interest received from foreign sources are also creditable. The credit in either case is limited to that part of the German tax which bears the same proportion to the total German tax as foreign income bears to total income. Other foreign taxes are deductible and not creditable.

Foreign income taxes levied on direct sales by a German company are neither credited nor deductible.

Ireland

Taxation of foreign source income.

Resident companies are subject to the corporation profits tax and the income tax on their worldwide income. However, liberal tax holidays are available for manufacturing and exporting enterprises. For purposes of the corporation profits tax, resident companies are those incorporated in Ireland. For purposes of the income tax, resident companies are those which have their central management and control in Ireland.

Taxation of foreign subsidiaries.

Non-resident corporations are taxable in Ireland only if they are doing business in Ireland. Dividends from a foreign subsidiary are fully subject to tax in Ireland after deduction for foreign taxes.

Interest, dividends and royalties from abroad.

Patent royalties, dividends and interest received from abroad must be included in computing taxable income for the income and corporation profits tax, without exemption or credit.

Treatment of foreign taxes.

There is no unilateral relief provision for the avoidance of double taxation. Foreign taxes are not creditable but are deductible in computing taxable income. This includes foreign taxes attributable to royalties, dividends and interest.

Italy

Taxation of foreign source income.

Resident companies are subject to a business income tax and a company tax. The tax on business income is levied on income earned in Italy. In addition, the tax is payable on income earned abroad unless the income is earned by a foreign permanent establishment with separate administration and accounting in the foreign country. The company tax is levied on "worldwide excess profits", and on net worth after deduction for foreign taxes paid.

Taxation of foreign subsidiaries.

The foreign source profits of a subsidiary of an Italian corporation are not subject to current income taxation in Italy except to the extent those profits are attributable to a permanent establishment in Italy. Dividends received from a subsidiary are not subject to the business income tax but are subject to the company tax.

Interest, dividends and royalties from abroad.

Patent royalties from foreign sources are subject to the business income tax, unless the Italian company has a permanent establishment in the country of source. Foreign dividends are exempt from all taxes unless the shares on which they are paid are placed in an Italian bank, in which case the bank must withhold a tax equal to five percent of the dividend. Interest income from foreign sources is subject to the tax on business income if it is considered to be business income. Patent royalties, dividends and interest are included in taxable income in computing the company tax.

Treatment of foreign taxes.

Taxes paid abroad are deductible for purposes of computing the corporation tax.

Japan

Taxation of foreign source income.

A domestic corporation is taxable on its worldwide income with relief from double taxation being given through the medium of a foreign tax credit.

Taxation of foreign subsidiaries.

A non-resident corporation is subject to the corporation tax, and, in some cases, the income tax only on its income from sources within Japan. Consequently, the income of a non-resident corporation with no Japanese source income is not taxed in Japan. An "indirect foreign tax credit" is given to a domestic corporation which received a dividend from a foreign subsidiary corporation if the domestic corporation owns 25 percent of the shares of the foreign subsidiary, or 25 percent of its paid-in capital, or 25 percent of the voting power, and the foreign subsidiary is established for the purpose of carrying on a business in the foreign country and not for the purpose of avoiding taxes.

Interest, dividends and royalties from abroad.

Apparently, interest, dividends, and patent royalties from abroad are fully taxable in Japan. It would appear that when income of this type is earned by a foreign permanent establishment of a Japanese corporation and subjected to tax in the foreign country, the tax is creditable.

Treatment of foreign taxes.

Foreign corporate taxes on a domestic corporation are creditable against the Japanese corporation tax subject to an overall limitation equal to the proportion that total income from sources outside Japan bears to the entire income of the corporation subject to the Japanese corporate tax. A credit is also given in the case of dividends received from a "foreign subsidiary" (see discussion above).

The Netherlands

Taxation of foreign source income.

Resident corporations are subject to corporate income tax on their worldwide income. However, the profits of a foreign permanent establishment and income from foreign real property are exempt from Dutch tax if there is a treaty providing an exemption, or if the income is subject to tax in the foreign country. In the case of income taxed in a foreign country relief is given in the form of a tax reduction equal to the percentage that the foreign source income bears to the worldwide income. In addition, losses of the foreign branch may be deducted from domestic taxable income but with a corresponding adjustment in the computation of the domestic tax liability for foreign branch profits for subsequent years. This adjustment prevents a double deduction of the loss.

Taxation of foreign subsidiaries.

Profits of a foreign subsidiary of a Dutch parent are not taxable except to the extent that the subsidiary has income from a permanent establishment in the Netherlands. Dividends received by a Dutch shareholder from a foreign subsidiary are exempt if the investment in the subsidiary is not less that five percent of the paid-in capital, and the holding of the shares is within the scope of the business activity of the parent company. Costs incurred with respect to participation in the foreign subsidiary are not deductible to the parent. Thus, interest on loans, the proceeds of which are used to acquire a foreign subsidiary, would not be deductible.

Intercompany pricing.

As a general rule, the pricing of transactions between a Dutch parent and a foreign subsidiary must be on an arm's length basis. Adjustments will be made if the arm's length standard is not maintained. Agreements may be reached in advance with the Tax Administration as to the intercompany profit allocation. Such methods as cost-plus, pro-rata division of aggregate profits, and discount practices or commission schedules have been agreed to. Apparently, when allocations are made on the basis of a pro-rata division, the sales profits may be estimated at a relatively higher percentage than the manufacturing profits.

Interest, dividends and royalties from abroad.

Patent royalties, dividends and interest received from abroad are subject to the company income tax, after deduction of foreign taxes. There is no credit given. If these amounts are derived through a foreign permanent establishment, they are exempt, provided the permanent establishment is subject to income tax in the country of service.

Treatment of foreign taxes.

Foreign withholding taxes on income subject to tax in the Netherlands are deductible. In the case of other income taxes a credit is given in the proportion the foreign income bears to total income.

Norway

Taxation of foreign source income.

Resident companies are taxable on their worldwide income. However, one-half of income from foreign real property and income from permanent establishments abroad is exempt from tax. Resident companies are those having their head office or center of management in Norway. The local income taxes (imposed by municipalities) are also computed on the basis of worldwide income.

Taxation of foreign subsidiaries.

A non-resident corporation is not taxable on its income, other than income attributable to a Norwegian permanent establishment, until distributed to Norwegian shareholders. If a Norwegian company either alone, or together with not more than nine other Norwegian residents, owns at least 95 percent of the shares in the foreign company, and the foreign company is the owner of real property or business establishments outside of Norway, then Norwegian taxes are levied on only one-half of the dividends distributed by the foreign company.

Interest, dividends and royalties from abroad.

Patent royalties, dividends and interest received from abroad are fully subject to tax in Norway after deduction for foreign taxes. If the royalties, dividends and interest are derived through a permanent establishment in the foreign country taxes are levied on only one-half of the income. Dividends received from a foreign subsidiary are likewise partially tax exempt if the requirements discussed above are met.

Treatment of foreign taxes.

Foreign taxes paid are deductible expenses. There is no credit.

Switzerland

This discussion concerns only the Federal tax. The cantonal and municipal tax burdens are usually heavier than the Federal, but any discussion of them is difficult as there is no uniformity among their tax laws. However, the basic principles concerning the determination of taxable income are, in most cases, based on the Federal rules.

Taxation of foreign source income.

A resident company is one which is incorporated in Switzerland. Resident companies are subject to Federal income tax levied on their worldwide income; however, they are not subject to tax on income attributable to a foreign permanent establishment and income from foreign real property. These companies are also subject to a net worth tax on worldwide assets with the same exemption. The rates of tax which apply to taxable income and net worth are generally determined as if no part of income or net worth were exempt.

Taxation of foreign subsidiaries.

A foreign subsidiary of a Swiss parent, as is the case with all non-resident companies, is taxable only on income derived through a Swiss permanent establishment, income from real property located in Switzerland, and interest from loans secured by real property located in Switzerland. The net worth tax is levied on assets the income from which is subject to the income tax. A special reduction in tax is given for dividends received from a company in which the Swiss parent has a "substantial interest", which is defined as ownership of 20 percent of the stock of a Swiss or foreign company or ownership of Swiss francs 2,000,000 worth of stock in such a company. The dividends are included in gross income, but the tax liability of the recipient company is reduced in the same proportion that dividends received from the substantial interest bears to total gross income.

Interest, dividends and royalties from abroad.

Income from patent royalties, dividends and interest from abroad is included in taxable income after a deduction of foreign taxes. Special rules apply to dividends from a company in which the recipient company has a substantial interest (see discussion above).

Treatment of foreign taxes.

There is no direct relief from double taxation; however, income attributable to a foreign permanent establishment or foreign real property is exempt from tax. In addition, the special rule relating to dividends from a company in which the recipient company owns a substantial interest applies to foreign as well as domestic subsidiaries.

United Kingdom

Taxation of foreign source income.

Resident companies are subject to tax on their worldwide income. Generally, a company resides at the place where its central management and control actually abide. Relief from double taxation is given bilaterally by way of treaty, or unilaterally through a credit.

Taxation of foreign subsidiaries.

Non-resident companies are taxed on income derived from trading within the United Kingdom through a branch or agency situated there. There is no current taxation of other income of non-resident corporations. A credit is given for taxes paid by the foreign subsidiary on its profits if the resident parent holds not less than ten percent of the voting power in the distributing company.

Intercompany pricing.

The United Kingdom's tax law contains a provision which is similar to our section 482, but more limited. Generally, arm's length dealings on sales between related parties are required. We understand that it is unusual for adjustments to be made in the case of export sales.

Interest, dividends and royalties from abroad.

Foreign income, including patent royalties, dividends and interest received from foreign sources must be grossed up with the appropriate amount of foreign tax and then included in the income of the resident company. A credit is then granted. The same rule applies to patent royalties, dividends and interest derived through a permanent establishment in a foreign country.

Treatment of foreign taxes.

A credit is given for foreign taxes paid which may not exceed the amount of United Kingdom tax corresponding to the gross foreign income. In addition, a credit is given for taxes paid by a distributing subsidiary (see discussion above).

Senator MONDALE. Also for the record I would like it if you would breakdown in some detail the elements that go into this $10.1 billion security assistance and development assistance to overseas sources as reflected in the staff memorandum. I think that would be very helpful.

Mr. FLANIGAN. Yes.

(Mr. Flanigan subsequently submitted the following:)

U.S. FOREIGN ASSISTANCE EXPENDITURES

[Dollars in thousands]

	1971	1972	1973
SECURITY ASSISTANCE			
Total	5, 701, 280 [1] (5, 705, 380)	6, 232, 605 [1] (6, 236, 805)	5, 928, 176 [1] (5, 932, 976)
Military assistance program	752, 485	528, 756	803, 442
Military assistance service-funded	2, 325, 900	2, 339, 400	2, 055, 000
MAAG administration and training	116, 508	116, 733	114, 254
Transfer of defense stocks (excluding excess defense articles)	278, 428	462, 086	105, 800
Excess defense articles (legal value)	118, 399	185, 000	245, 000
Ships transfers (loans, leases)	18, 480	47, 579	39, 600
Real property transfers	217, 009	740, 651	485, 680
Security supporting assistance	572, 971	598, 100	874, 500
FMS credit sales	743, 400	550, 000	629, 000
Export-Import Bank military sales	253, 000	300, 000	360, 000
Public Law 480, sec. 104C	120, 500	103, 900	124, 000
Purchase of local currency	184, 200	260, 400	91, 900
DEVELOPMENT AND HUMANITARIAN ASSISTANCE			
Total	2, 762, 454 [1] (3, 017, 073)	3, 189, 908 [1] (3, 479, 462)	3, 763, 765 [1] (4, 191, 295)
Agency for International Development	1, 257, 345	1, 420, 446	1, 598, 976
International narcotics control and contingency fund	26, 242	50, 291	72, 800
Peace Corps	85, 024	61, 900	72, 200
Public Law 480	1, 138, 843	1, 249, 966	1, 099, 789
International financial institutions	255, 000	407, 305	920, 000
Grand total, Foreign Assistance	8, 463, 734	9, 422, 513	9, 691, 941
Export-Import Bank (other than military loans included in security assistance)	2, 880, 800	7, 331, 800	7, 331, 800
Grand total, including Export-Import Bank	11, 344, 534	16, 754, 313	17, 023, 741

[1] Figures in parentheses are those reported in S. Rept. 92–1231, p. 4; and in "The Multinational Corporation and the World Economy," Senate Committee on Finance, U.S. Government Printing Office 90–604, p. 36. Difference from figures here due to minor revisions in agency estimates subsequent to submission of figures reported in documents cited.

Source: (1) Security Assistance: Department of Defense, estimates as of May 3, 1972. (2) Development and Humanitarian Assistance: AID, 1972 (spring). (3) Export-Import Bank: AID, 1972 (spring).

Senator RIBICOFF. Senator Curtis.

Senator CURTIS. Thank you, Mr. Chairman. I want to commend you on your general statement——

Mr. FLANIGAN. Thank you, sir.

Senator CURTIS (continuing). At the start of these hearings.

My first question is somewhat akin to the last question of Senator Mondale. Do foreign countries tax income earned in the United States prior to its removal to the country that owns the investment?

Mr. FLANIGAN. My understanding is that in the great majority of the cases they do not, Senator, but I will give you a breakdown of their tax policies by country. I will submit that to this committee. But my understanding is that they do not.*

Senator CURTIS. It seems to me that we may run into a question here of sovereignty if we embark on a program of taxing income earned outside the jurisdiction of the United States, which income is not returned to the United States, because if we do it everybody else can do it.

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*See material provided for the record at p. 32 ff.

Mr. FLANIGAN. They can if they wish. They will have to recognize that it will have an effect on the incidence of their investment abroad but since we——

Senator CURTIS. If we can legally do it they can legally do it.

Mr. FLANIGAN. Yes, sir.

Senator CURTIS. Now, much has been said about negotiation, the coming negotiations. What are the tools or weapons that are available to the United States when Uncle Sam sits down at the negotiating table. What does he have to bargain with.

Mr. FLANIGAN. At the moment, Senator, the executive has very little authority. In the area of import restraints, for example, we are examining the appropriate circumstances under which we would propose that certain kinds of authority be granted the executive branch. Also, as you know, we are meeting with Members of Congress to get your thoughts. I am happy to say I look forward particularly to meeting with you before we get this to legislative language. Suffice to say that under the current law the executive has very limited authority to impose import restraints here even where we believe it would be appropriate. That would be a tool if the Senate and House grants it to us—that tool being that you could to some extent limit the availability of this market.

In addition, this level of security assistance abroad is, of course, important to our major trading partners in the free world and they will have to take that into account recognizing that we have a deficit in our basic balance. They must recognize that to some large extent that deficit is the result of our expenditures abroad on the security front and that if they feel that we should maintain that level of expenditures, if they feel as they have said they do at the IMF meetings last year, that we should be in balance on our basic accounts, then they are going to have to recognize that we need ways to get further income, and that one obvious way is exports.

Senator CURTIS. Well, assuming that we grant to the administration all the authority they ask, are our negotiators still limited as their tools an offer to reduce or minimize the barrier we have or a threat to impose one? Isn't that the only argument we have at the table?

Mr. FLANIGAN. Well, we have no authority on the first, that is to lower.

Senator CURTIS. I am not directing my question to the authority between the Executive and Congress. I am assuming hypothetically that whoever goes to that table has all of the legal authority they need.

Mr. FLANIGAN. Right.

Senator CURTIS. Now, what bargaining tools do we have to deal with these tough customers like Japan and the Common Market, both of which are highly protective industrial societies?

Mr. FLANIGAN. Senator, they have a great stake in keeping their trade and in fact expanding their trade and we hopefully will have the tool of not necessarily providing that. It seems to me that is a very effective tool.

Senator CURTIS. In other words, the principal tool that we have is a threat on our part that we might impose some restrictions?

Mr. FLANIGAN. And on the other side of that we have the incentive that if they are equitable in their markets, we benefit by expanded trade.

Senator CURTIS. Oh, yes.

Mr. FLANIGAN. I consider it a carrot to be a tool the same way a stick is a tool.

Senator CURTIS. But my point is as of some years ago we could go to a table and say, if you will reduce such and such a barrier we will reduce a certain barrier. Isn't that time about gone? There isn't much we can reduce.

Mr. FLANIGAN. Yes, sir; there are some tariff barriers left both here and abroad and, as I said, we do a little nontariff barrier sinning ourselves, not as much as they, but we can urge them to remove what we think are larger barriers if we will look and see which of ours we can do something about. We have, as you know, recently, in order to increase the supply of meat in this country, temporarily reduced a nontariff barrier. We think that they have an obligation to take some very substantial steps in the same area, in the agricultural field.

The other tool that seems to me that beyond the carrot of increased trade and the stick of decreased trade, the other tool, less direct perhaps but nevertheless important in their consideration is that they know and we know that the United States cannot remain indefinitely in deficit in its basic balance and much of that basic balance deficit or a substantial portion comes from security expenditures abroad and they feel that their own security depends on continuation of these expenditures so they have to take that into consideration.

Senator CURTIS. I understand there are lots of arguments why they should be good boys and concede to some of the things we request.

I say this with no criticism of you or the administration, it is a matter that has grown up over 20, 30 or more years, where the United States has constantly moved in the direction of reducing barriers of all kinds and while at the same time the competitive forces in the world have gone the other way. Japan is highly protective. The Common Market, while it is a free trade association within the Common Market, its exterior trade policy is highly protective. I am very disturbed about the outcome on all of this toward agriculture. We are shipping considerable agricultural products to the United Kingdom. With England in the Common Market they admittedly are going to buy those things within the Common Market at a higher price than other Common Market countries can provide them and there is just no way that in the Common Market area we can reestablish those markets?

The point I am trying to make is this: That we don't have many concessions that we can make. We have a few. Maybe we shouldn't concede everything. Maybe. I am sure there are some trade restrictions thoroughly justified, but about all we have got left besides balancing and arguing the altruism, long range good of it, is a threat to impose barriers and I am not suggesting we should do so.

I think that if either the Common Market or Japan gets too tough on some areas why we should shut off the spigot on something else entirely that is very essential to them and say that is what we are going to do, because if there is a notion in this country that the whole world is moving toward free trade, I think people should understand the opposite is true. Our tough competitors in the world today are the highest protective industrial societies that the world has known for a long time. The Common Market is doing what the United States did when the Union was formed, they established free trade with the States and a tariff wall around the United States so to build up an industrial society.

I think that we are going to have to explore the possibility not only of threats of additional protection but when the occasion arises actually use them, because they will not respond to the altruistic fair-play good of all argument. They say that is a good idea but let's wait a while and we can't we don't start out from equal ground.

Senator Ribicoff. Mr. Kendall. It is obvious that we will not be able to reach you until this afternoon. Could you come back at 2 o'clock, sir. There is little sense in your waiting here if you don't wish to.

Mr. Flanigan. Could I make one short statement with regard to Senator Curtis' comments on agriculture.

We firmly agree that we have to be very strong in insisting that in discussions of removing barriers, barriers to our agricultural exports are just as important to us and maybe in the current context of overall barriers more important than on the industrial front. We intend with regard to the incidents of certain increased agricultural barriers arising out of the United Kingdom joining the Community, to begin negotiations on that next month, not wait until the fall, and we have made it very clear to our partners both in Europe and in Japan that they cannot take the arguments that agriculture is so different from other products, job producing products, that we won't talk about it. We do intend to talk about it and to negotiate very hard and hopefully we will make some headway.

Senator Ribicoff. Senator Bentsen.

Senator Bentsen. Thank you very much, Mr. Chairman.

Mr. Flanigan, I certainly agree with the tenor of your remarks. We ought to put greater emphasis on increasing exports rather than restraint of trade or stopping imports, and I further understand that we have to give consideration to both in our carrot and stick approach.

I can't help but think once again of the example of Japan and some of the protectionist actions they have taken in the nontariff areas. When I think of the example of the Pinto car selling for $2,000 in this country and selling for $5,500 in Japan, it's more than just a differential of a 3-percent import tariff and a 17 or 18 percent one there. It's a good little car, but it's not that good, and sales of Pinto aren't exactly booming in Japan.

I think, on the other hand, of the Toyota selling in this country for $2,000 and approximately $2,000 in Japan. Then I am told that one out of five new cars in Los Angeles is a Japanese car. It is very obvious that we have to have some hard-nosed negotiations and I look forward to that on the part of the administration.

On this question of multinational corporations, if we were to accept the figures that you have given us in your testimony—you refer to their contribution to trade surplus in the year 1970 being $7.6 billion; whereas, the nonmultinational ones had a $5.7 billion deficit.

Then, you cite that domestic employment attributed to multinational corporations has grown by 2.7 percent as compared to the nonmultinationals of 1.8 percent.

But I am concerned with whether or not we are comparing apples to apples in this kind of situation.

I have some concern about the validity of such figures.

It seems to me that multinationals are generally more aggressive companies than most domestic industry. Those which go abroad often have the more progressive management and are often in growth industries, so I am concerned as to whether these figures always follow through. And I know that is a very difficult one to put limitations and parameters on with that kind of supposition.

The other question that has come to mind is that on page 10 you refer to the overvaluation of the dollar and the very shaky monetary system. Yet, since 1967, our unit labor costs have risen some 14 percent in this country, 44 percent in Germany, 22 percent in Japan, yet our competitive position vis-a-vis these countries has deteriorated in that period of time.

Would you comment on that for us?

Mr. FLANIGAN. I think that the answer to that question was perhaps the one that Senator Fannin suggested earlier; that you can take a lower wage rate and have it rise very rapidly and not diminish, have it rise more rapidly than ours and not necessarily diminish the difference. I think that there was this overvaluation of our currency in those years and we were suffering a deficit, in fact, we have had a deficit in our basic accounts, as I understand it, since 1957.

The reason we didn't then, the Suez Canal was closed and we exported a lot of oil. We are making corrections—by virtue of this Smithsonian Agreement and the agreement reached week before last in that imbalance which existed, not just since 1967 but before that.

Senator BENTSEN. And the question of differential in wages though isn't the sole criterion by which companies decide to go abroad, of course, because we can look at those industries in which we have the highest wage scales, some of our high technology industries, and those are the ones with which we have our best export record in the balance of trade.

Mr. FLANIGAN. Yes, sir.

Senator BENTSEN. One of the things of concern to me is the country of Japan placing unit restrictions and high tariffs on large computers and then in turn using part of that as a research and development fund which they turn back to their industry for industry to develop a computer competitive to our own.

Mr. FLANIGAN. We agree, Senator, for Japan which has the second largest computer industry in the world after us to claim that as it is an infinite industry is unacceptable. We consider that to be a nontariff trade barrier that we cannot permit to continue to exist and we intend to negotiate very hard to get it removed.

Senator BENTSEN. As I recall the numbers, Japan is the only country where we have a deficit both in low and high technical items.

Mr. FLANIGAN. I accept your characterization.

Senator BENTSEN. Now, on the question of the taxation of multinational corporations on their earnings abroad and the 100 percent credit that is given on the taxes collected there, I could understand where if we took away the 100 percent credit and levied our own tax, I suppose we could get into a confiscatory situation where you might get over a 100 percent tax on the income. But let us look at the other approach.

A corporation in this country is allowed a deduction, not a credit, for State tax, and yet when it goes abroad it gets a full credit rather than a deduction. And that seems to be somewhat of an inconsistency.

Mr. FLANIGAN. As I indicated, Senator, that is one of the specific questions. State taxation is among the questions being considered now by the administration and I would hope before very long, we will be able to come back up and give you our thoughts on what changes, if any, we would suggest with regard to taxation of foreign income.

Senator BENTSEN. Mr. Chairman, with the limitation on time and the hour, I will give back the rest of my time.

Senator RIBICOFF. You have 3 more minutes if you would like to take it.

Senator BENTSEN. No.

Senator RIBICOFF. Senator Packwood.

Senator PACKWOOD. Mr. Chairman, Senator Mondale was asking about the effect if we were to compel all overseas earnings to be remitted in the year in which they are earned. I might call attention of the committee to an article by Mr. Kendall for U.S. News and World Report. Eighty percent of the overseas earnings are remitted now in the year they are earned. That is from the Department of Commerce report. I would like to submit that for the record.

Senator RIBICOFF. Without objection, it will be accepted.

(The article referred to follows:)

[From the U.S. News & World Report]

IN TRADE: "WE HAVE TO BE MUCH TOUGHER, AS A NATION"

(Interview With Donald M. Kendall, Chairman and Chief Executive Officer, PepsiCo, Inc.)

Do American workers lose jobs because of imports? Is this country too soft in dealing with trading partners? Should U.S. overseas investments be curtailed from now on?

To answer questions about the growing issues of foreign trade, Mr. Kendall came to the conference room of "U.S. News & World Report" for this exclusive interview.

Question. Mr. Kendall, what would you like to see discussed in our next round of trade negotiations with Japan and other nations?

Answer. I would like to see some of the barriers against us lowered. Let's look at the problem we're faced with on trade and you can see some of the things we have got to solve.

In 1972, by the latest estimates I have heard, we're going to end up with a trade deficit of more than 6 billion dollars. We bought that much more then we sold in foreign markets. That includes a deficit of about 4 billion with Japan, 2 billion with Canada, and about 1 billion with Germany. For the first time, we're going to have a deficit with the European Economic Community [Common Market].

Now, let's look where we're going to be by 1980—and I only take 1980 because I want to cite our energy needs in the future as a problem which fits into this whole package:

On the merchandise account—our trade in goods other than oil and gas—we probably can balance out; that is, our exports will offset our imports in 1980. Hopefully, we can even improve that.

If you look at tourism, there is going to be a deficit in 1980. Shipping and insurance is another deficit area in our trade balance.

On Government expenditures, you have to count on aid to allies and our own military costs, including those involved in the North Atlantic Treaty Organization. So you havea deficit there.

Question. Did the U.S. have any surpluses anywhere?

Answer. The only place where you have any true surplus is the flowback from our foreign direct investments—what we're getting back in royalties and earnings from investments abroad. That now amounts to about 9 billion a year. But this is offset by what we are plowing into additional investments abroad. The real surplus nets out to around 4 billion dollars a year.

Now, the energy experts have pretty much agreed that by 1980 we're going to be importing about 15 billion dollars' worth of energy each year in the form of oil and gas.

So we have quite a gap to fill in our balance of payments. And the biggest opportunity we have to fill it is through the surplus we earn on foreign direct investments.

Even if you expand that surplus—maybe you can get it up from 4 to about 12 billion a year—you're still not going to be able to cover the cost of energy imports. We're just going to have to do more on the trade side to cover the gap. This means we must have a better climate in which to sell our merchandise abroad.

Question. What about those barriers—

Answer. There are barriers in Europe that we can argue about with the Europeans.

There's the value-added tax that they impose on imports. We say it disadvantages us because we don't have that kind of tax. They say it doesn't—that it applies to domestic production as well as imports. Well, what do we do about that problem? Do we join them and put on a value-added tax of our own? Something has to be done.

There are barriers to our agricultural products. The one sector in our economy where we have a higher rate of productivity than any other country in the world is in agriculture. Yet there are barriers all around the world against our farm products. We have some barriers ourselves on agricultural imports. In fact, there are a lot of countries who have dirty hands in argiculture. We have to have some of those barriers taken down.

The farm products are a political problem. In Europe, everybody talks about the farmer's need for protection. In this country, there has been much more movement of people off the farms and into the cities, so they are no longer such a big political factor.

But that's not true in Europe, nor in Japan.

Question. What kinds of barriers do the Japanese have?

Answer. Out of our 6-billion-dollar deficit in 1972, about 4 billion was with Japan. It has reached the point where the problem can't be solved just by Japan changing the barriers they have against us. And there are many barriers.

They have restrictions on the sale of U.S. computers and peripheral equipment, for example, and on agricultural products, and on distribution—they won't permit us to have, for instance, more than a handful of Sears, Roebuck-type stores in Japan. The oil companies can't go into the Japanese market with their service stations, and so on, the way we allow the Japanese to work over here.

Even if you changed all that, you would not crack the problem today. There is going to have to be currency realignment in Japan.

Question. When you talk about a net inflow of 4 billion dollars a year from investments abroad, does that include the investments that foreigners make in this country?

Answer. It takes into account the fact that remittances abroad from earnings of foreign investments in the U.S. exceeded new investments by 800 million dollars in 1971.

Another thing to remember about our direct foreign investments is that few of the dollars involved are an outflow from the United States, because the bulk of such investment now comes from the reinvestment of foreign earnings, and borrowings in the countries where the investments are located.

Our direct foreign investments are making a big contribution to the U.S. trade balance, without taking a lot out of the country. That's one of the reasons it seems so ridiculous to try to put restrictive legislation on those investments.

Question. What is your reply to the charge that multinational companies export American jobs?

Answer. It's a case of mistaken identity. We can give you a survey going back to 1960 that shows the multinational companies ECAT [Emergency Committee for American Trade] represents have increased their employment inside the U.S. at a substantially higher rate than the rest of the economy. So we can prove we are not exporters of jobs.

Last November, the Department of Commerce issued a thorough survey of its own, showing multinational companies increased domestic employment during the period 1966 to 1970 at a rate of 2.7 per cent annually, while the over-all rate for industry was only 1.8 per cent.

Some people would have you believe that a "whiz kid" sits in a tower with a group of computers and looks all around the world to find out where is the cheapest place to have a plant and the cheapest source of labor. And he works out a computer model on this. Then a guy pushes a button and he picks up a plant and moves it from Keokuk, Ia., over to some place in Africa, and then the costs rise there, so he picks the plant up and moves it to some place in South America or out to Asia.

Now, you just don't pick up plants and move around the world because of labor costs. There are some exceptions. But let's look at the total picture.

Question. To what extent does foreign production in your plants displace exports from the United States?

Answer. As I recall, our survey showed only 2 per cent of the production of those facilities came back into the United States. That's not counting Canada, where the Canadian auto agreement creates a separate situation.

Question. But aren't some of the things produced abroad things we could have exported from this country?

Answer. In most cases, you located a plant over there because you wouldn't be selling anything in that market if you didn't have the plant there.

Question. How do you actually explain that to a worker who lost his job in electrical-equipment plant that used to make radios, but was put out of business by Japanese or German imports?

Answer. The question really is: Did he or did he not get another job? If he is still without a job, you have got a heck of a problem explaining to him what happened to his lost job. That is why you need an adjustment-assistance program to help in such cases.

You know, technology is the key to so much of this, and it is constantly changing, creating new jobs that replace the old ones. But before I get into that, let me make this point:

We sold our technology in the Space Administration to everyone for the same price that an American company would have paid for it. We have to be much tougher, as a nation, in such deals, and have a foreign policy based on our own economic needs.

We have to do a lot of other things, of course. We need to work hard on productivity—and I'm not just talking about labor unions, because I don't think the unions are the sole cause of our problem. They're not that big a sector of our employment force. Sure, they're a factor, and so are high wages, but that's just one of several problems.

We have to bring Government spending under control. That's why I hated to see the President lose his spending ceiling. (A Nixon ceiling proposal in 1972 was not approved by Congress.) Government spending is an inflationary factor, and we must keep inflation under control to stay competitive abroad.

Finally, we have to be tough in our trade negotiations. The day of the Marshall Plan approach is over. We could afford the Marshall Plan. We were in a position like the Japanese are now, with big surpluses. But we can't afford that kind of program today.

We need negotiators who know what they're talking about, and who are tough. I don't mean unfair.

If we do all those things, I believe the United States can still compete in this world. I don't think we need protection from our neighbors and trading partners—just fair conditions.

Question. Back to that radio—

Answer. There will still be U.S. industries where you are going to have shifts, but they sometimes work for you and not against you. The head of one large American company tells me that out of the space program they came up with technical improvements that are enabling them to become competitive on radios once again, and he told me they are making radios for cars.

Question. In this country?

Answer. Yes. Here's another example: Look at this watch on my wrist. It tells time by a computer printout. It was one of the original experimental models, and very expensive to make.

The first one, as I understand it, cost something like $2,000 to make. The manufacturers lost money on the first batch of 500 they sold. They're now selling them for $250, and they expect to get it down to $35 some day.

This watch is one of the most accurate watches you can get—plus or minus 60 seconds over a year's time. And it's going to bring the watch industry back to the United States.

So you have these shifts. Where they occur, we should have programs that take the worker who was making radios and retrain him and, most importantly, make sure he doesn't lose his seniority so he doesn't have to start all over again at a beginner's pay in a new job. We should also pay to move him wherever he has to go for that training or job.

Question. Isn't some of that already provided, at least in theory, except for the seniority angle?

Answer. The seniority angle is one of the most important parts of it.

Question. Would that mean the Government, in effect, would have to pay part of his salary for an indefinite period, even after he got a new job?

Answer. That's right. This is much better than putting up import barriers in a vain effort to save some jobs, because when you put up import barriers everybody suffers.

Question. What is happening to the flow of direct foreign investment by U.S. companies now? Is it speeding up or slowing down?

Answer. I don't think there has been any real change. There were problems for a while. Some restrictions went into effect, but most people have found ways to live with them, particularly with local borrowings of capital.

Question. Does anyone know the total amount of American investments overseas?

Answer. The book value—the original cost of factories and other facilities minus depreciation—at the end of 1971, as reported by the Department of Commerce, was 86 billion dollars, of which investments in manufacturing facilities was 35.5 billion dollars.

Question. How much is now being invested each year?

Answer. In 1971, overseas expenditures for what is called plant and equipment were 14.8 billion dollars, and in 1972 they were 15.4 billion dollars. Of these amounts, 0.8 billion dollars in 1971 and 6.9 billion dollars in 1972 were investments in manufacturing. The remainder was invested in such things as mining.

ADVANTAGES OF INVESTING ABROAD—

Question. Should the U.S. Government actively encourage, or discourage, this continued flow of investment abroad?

Answer. I think they should encourage it.

Question. Why?

Answer. Because of the results.

Most American companies do not go overseas and invest there because they want to get into a lower wage market.

These are examples of that, of course, which somebody could recite. You can look at some plants along the Mexican borders and there is no question that somebody has gone there to get a lower labor rate. You can go to Taiwan and Hong Kong and find the same thing in electronics.

But let's look at the bulk of cases, not the exceptions. The majority of companies have gone overseas because they wouldn't be able to get into those markets if they didn't go overseas and invest in a plant.

My company has Pepsi Cola plants all around the world. From our standpoint, I would love to have one big, efficient, automated plant in the United States making Pepsi Cola concentrate and shipping it all over the world. Unfortunately, we can't do that. You have to put up concentrate plants in some countries, or you're not going to be in their markets.

I think the case is well proved on the value that we're getting from those investments. And if the United States didn't have the foreign investments of their multinational companies, we would really be in bad shape.

Question. To what extent is this advantageous situation on return from those investments due to features of the tax law which permit the earnings of a foreign subsidiary not to be counted in a multinational company's earnings unless those earnings are remitted to the parent company?

Answer. It would be a disaster if you didn't have that, because you shouldn't pay taxes on earnings until you bring them back to the U.S.

Question. How does that work?

Answer. Bear in mind that the U.S. Tax Code provides that all income earned anywhere by a U.S. corporation is subject to U.S. taxation. The Internal Revenue Code even provides that profits earned abroad shall be taxed at either the U.S. rate or the foreign rate—whichever one is higher.

Say you have a plant in *x* country overseas and you earn a dollar and the local tax rate imposed by *x* country is 48 per cent. You pay that tax to *x* country and, since it is as high as the U.S. rate it is fully credited against the 48 per cent owed at home in the U.S. Now, if the tax rate is 38 per cent in *x* country, then you would have to pay 10 per cent more to the U.S. This is so that differences in national tax rates will not provide artificial incentives to investment and also so that you don't end up with double taxation on the same income. You're not required to pay your U.S. taxes until you bring your earnings back to the U.S., that is, until they are available to the corporation being taxed.

Question. Isn't that different from the way a subsidiary of a U.S. corporation operating in this country is treated?

Answer. Of course.

Question. Why should there be a difference?

Answer. Because one subsidiary is operating inside this country and one is a foreign company operating according to the laws of the host country. You cannot compare a plant in New Jersey with one in Germany or Mexico. We're operating under different laws over there. If American-owned companies had to pay taxes on those plants on the same basis as on the plant in New Jersey while our foreign competitors did not have to do so, we couldn't operate overseas. You wouldn't get a return on your foreign investment. There wouldn't be much investment.

"BRINGING THE MONEY HOME"—

Question. What generally happens to the earnings that are made in overseas plants? If they are not remitted to the United States, what's done with them?

Answer. Obviously, much of those earnings are remitted. A current Department of Commerce survey says that more than 80 per cent of overseas earnings are remitted in the year they are earned. After all, we had a 4-billion-dollar surplus inflow in 1972. The situation varies, depending on the area. In some of the countries where PepsiCo operates, we still haven't taken earnings out because we are reinvesting in that market to try to get a certain share of it. Once we reach the point where we are not in a reinvestment cycle, we start bringing the money home.

You do the same thing if you are investing here in the United States. Say you had a Pepsi Cola plant in Indianapolis that you owned yourself. You would pour all the money back into that plant and that market for a time to try to get a certain market share, so that it would have a value if you planned to pass it on to your children or sell it to someone eventually. You would reinvest the earnings.

Question. But isn't the difference that if it is a plant you had in Indianapolis, you would only be able to reinvest what was left after you had paid federal tax on the net earnings of that plant? Whereas in the case of a plant in Germany——

Answer. The overseas plant must first pay local taxes which, on the average, are as high as in the United States. They are higher in Germany than in the United States. If you changed these tax rules on companies operating abroad, a lot of U.S. companies would have a big decrease in their earnings right now, which I don't think would be good.

You asked earlier whether our direct foreign investments were going up or down. If earnings fell, investments would go down at a very rapid rate.

Question. What changes are being suggested in the tax rules for companies with operations abroad?

Answer. The suggestion is, first, that earnings in foreign operations should be taxed even before they are distributed to the parent company, and second, that taxes paid to foreign governments would no longer be allowed as a credit against American taxes. Since taxes are high in most foreign countries, this would mean overseas earnings would often be taxed at a much higher rate than domestic earnings.

Question. Is that change embodied in the Burke-Hartke legislation [*bills introduced by Representative James A. Burke (Dem.), of Massachusetts, and Senator Vance Hartke (Dem.), of Indiana*]

Answer. Yes.

Question. Is that the worst feature of Burke-Hartke, in your view?

Answer. The tax aspect is the worst feature.

Question. Doesn't Burke-Hartke also include restrictions on imports that take jobs away from the U.S.?

Answer. Yes. And I don't think you could pass the Burke-Hartke bill without other countries taking reprisals against us. We don't live in the kind of world where people are going to let us restrict them without restricting back.

At the moment, we have to operate under the GATT [General Agreement on Tariffs and Trade] regulations. These may have to be changed so that countries can react against one that has a persistent trade surplus and refuses to adjust its currency value, without having to take similar measures against all other countries around the world.

Our main problem today, is Japan. Sure, we have a problem with Canada and Germany, but our big problem is Japan. There should be some mechanism under which—if Japan doesn't revalue its currency, or do something else to correct its imbalance of trade with the U.S.—then we should be able to take action against Japan.

Under the Burke-Hartke proposal, we would just take action against everybody, and I don't think that's right.

"A VERY DISTURBING TREND"

Question. Do you find increasing evidence that foreign countries are restricting operations of U.S. multinational companies and those of other nations as well?

Answer. There is growing nationalism all over the world, without exception. To me it's a very disturbing trend. Trade not only benefits man, by giving him more and better things to enjoy—clothes and cars and a whole way of life—but trade also is the principal way to get people together and bring barriers down around the world.

I think trade is going to be one of the main means of solving the problems between the United States and the Soviet Union. If I have ever seen a country where personal relationships are important, it's the Soviet Union.

People react there as they would if you went out to some place in Ohio or Iowa and met somebody and became his friend. That has an impact in that community. It's the same way in the Soviet Union.

The more American businessmen go over there and tell them about our country the better, because if there was ever a place where there is a lack of understanding about the United States, it's the Soviet Union. And I think this is also true on our side.

When American businessmen go to the Soviet Union they're going to develop personal relationships and it's going to make, I believe, a tremendous impact. Because the biggest thing that's lacking is confidence and trust between both sides.

Question. Do you think multinational companies can have an important role in this East-West trade development?

Answer. They not only can, they already have. One of our greatest opportunities is in the Eastern European countries, and particularly the Soviet Union.

In terms of trade, that is one place where we're likely to have good surpluses for the next five or six years. If the oil and gas arrangements are worked out for the U.S. to import vast quantities of Siberian gas, that balance will change. But we have to get that energy somewhere, and certainly during this period of "crunch" that we're in, our trade with Eastern Europe can be very important. The Soviets believe in our technology, in our managerial ability, and there's no question in my opinion that they want to do business with us.

Question. How about the Red Chinese? Have you been over there?

Answer. No.

I think you have to put things in perspective. Our first United States exhibition in a trade fair in the Soviet Union was in 1959. It was 1972 before we finally had a trade agreement. Trade was very small until 1972. Then look what happened. It really took off.

Question. Coming back to the multinational companies in your committee: What part of their sales and earnings comes from overseas operations?

Answer. I couldn't give you an average. For my own company it's about 30 per cent.

Question. Does it follow that legislation which was inimical to overseas operations would have a severe effect upon the earnings and status of many leading American companies?

Answer. It certainly would.

Question What are the chances of such legislation going through Congress in 1973?

Answer. It's too early to tell.

Question. Who are the main backers of Burke-Hartke?

Answer. Labor unions.

Question. This is a big shift for most unions, isn't it? Generally, unions backed reciprocal-trade agreements—

Answer. They were in the forefront—one of the leaders—for freer trade. Some unions are still on that side. Some unions have been sold by their staff people on the mistaken idea that you raised earlier—that multinational companies are exporting jobs. They've gotten themselves into very rigid positions, and we have to do everything we can to show that their claims are inaccurate.

"WE FACE A VERY LARGE PROBLEM"—

Question. If you look down the road, say, 10 or 15 years, how can the United States hope to do anything but run a big trade deficit, over all, if we are importing more and more raw materials and energy?

Answer. I have asked the same question, and there is no doubt that we face a very large problem.

Let's go back and once again look at the various accounts in our balance-of-payments picture:

In merchandise, let's assume we can improve our situation and sell more than we buy—getting it up to, say, a 4-billion surplus by 1980.

On shipping and insurance, we're unlikely to make any real gain. We'll still be in deficit there.

The tourism deficit we might change from 3 billion a year now to 2 billion. I don't think Americans are going to stop traveling and I'll be surprised if we get a big influx of people from the rest of the world into our country. We can improve our balance a little in tourist spending, but not much.

And let's assume on direct foreign investments we can move our surplus up from 4 billion a year now to the area of 10 or 12 billion by 1980.

With these improvements, maybe we can solve our balance-of-payments situation up to 1980, but after that, if you're going to have the energy-import requirements the experts see now, I just don't know. But I've seen projections where the experts said the world was going to starve in 1983, too. That was back in 1950, when people didn't realize what technology was going to accomplish in food production. I am afraid to rely very much on these long, straightline projections.

Yet there is no question that we are confronted with a most difficult balance-of-payments outlook.

"KILLING THE GOOSE . . ."

Question. Would it help the balance of payments to bring more of those multinational-company earnings back faster by increased taxes?

Answer. Somebody once said something about "killing the goose that laid the golden egg." That's the best answer to that question.

Senator PACKWOOD. Mr. Flanigan, let me ask you one question about a point in your statement that I don't understand.

In addition, we need the authority to prevent a flood of imports from inundating any single industry in a short time. To protect against this, the President, in the Trade bill, will request the authority for safeguards to avoid short-term market disruption while economic adjustment to imports takes place.

Mr. FLANIGAN. Senator, this is the area of import restraint that is already in what may well be considered an inadequate way, in the law where we, and it is also an area that we are discussing with you and your colleagues in the Senate and also in the House of Representatives, where we believe that given the low and perhaps even lower levels of the barriers to open trading in an equitable trading world, a circumstance could arise in which an industry would be inundated by a flood of imports at a lower price in perfectly free trading. We believe that, or are considering, that there should be some way in which time could be given for the workers in that industry and for the industry itself to adjust to that kind of competition. We would expect that many of our trading partners would agree that it is inappropriate to ask the society to take the burden of a flood of imports in just one industry where the workers and the companies are going to bear the brunt of this flood with no assistance. We think they should be given some time. The comment in there where I say over time indicates that we do not believe, however, that you should freeze into the international economic world a distortion by permanently excluding imports from that industry.

Senator PACKWOOD. You are only talking about a short-term period during which this industry can adapt itself to imports, you are not talking about permanent protection?

Mr. FLANIGAN. Not permanent.

Senator PACKWOOD. I think all of us on the committee would probably share the views you have indicated that most of the members have of the necessity to have a sufficient stick to bargain with nations who are unfairly discriminating against us. I wish you could assure me of something. As I read the Wall Street Journal, the New York Times, Evans and Novak, and I see Mr. Meany's comments, I sense the possibility that the administration is going to come before this Congress asking for permanent protectionist legislation.

Do you have any idea if that is what they are thinking of?

Mr. FLANIGAN. Senator, I think that the President put the philosophy of this administration best when he spoke last September before the IMF, the Finance Ministers and the Central Bankers of 134 nations. He said:

> We are secure enough in our independence to freely assert our interdependence, that we look for an open and equitable trading world. We will not turn isolationists and inward.

In other words, we believe, as I tried to say in my testimony, that the welfare of the citizens of the United States, the workers and consumers of the United States will be better served by an open and equitable world of trade. We don't have that now. We think it could be a lot more equitable, and the type of authority that will be requested from the Congress, and it has not yet been put into legislative language, but the type of authority that we will request will give us, we hope, the tools necessary to negotiate that. The intention, however, is not to go toward a restrictionist economically isolationist policy but rather an equtable policy that will allow us to develop an open market.

Senator PACKWOOD. Can we draw a law that will allow the administration to have the power to negotiate tit for tat with nations that will not reciprocate and, if necessary, impose limited nontariff barriers without giving the administration power to negotiate genuine protectionist barriers? Can those be separated?

Mr. FLANIGAN. Yes; I think they can, Senator. I think that you can determine import restraints that are temporary where there is injury and those where there is the inequity and limit restraints that are designed to deal with inequity.

Senator PACKWOOD. Thank you.

Senator RIBICOFF. Senator Hartke?

Senator Hartke. Let me ask you, Mr. Flanigan. When can we expect your trade bill to come forward?

Mr. Flanigan. I would expect that it would be here in a matter of a few weeks, Senator. I can't be more definite.

Senator Hartke. Before Easter?

Mr. Flanigan. I would hope.

Senator Hartke. An Easter egg for us?

Mr. Flanigan. I would hope that we will pull the rabbit out of the hat before Easter.

Senator Hartke. Of course you know that I have been deeply involved in this matter. There are sharp attacks upon the bill that Congressman Burke and I have proposed, yet at the same time there is no other available legislative document on the table.

Mr. Flanigan. That is fair; the administration's bill is not yet here.

Senator Hartke. And has not been for quite some time. For that reason I would like to especially pay my compliments to the chairman of the committee and the staff report put forward because I do think it attempts to reach some of these matters without the emotionalism I have encountered in both some of the multinational corporations, some within the administration.

The matter of taxation is succinctly put forward in the staff committee report beginning on page 18.* Table 4 shows that the taxable income on foreign earnings of U.S.-owned corporations was $11 billion in 1970; that is 2 years ago, before the present crisis. Taxes paid to foreign governments on that income were estimated to be $5.7 billion or 51.8 percent. After crediting those foreign taxes with a $4.6 billion foreign tax credit, the U.S. Government received only $640 million of the $11 billion, or 6 percent, in taxes.

Now, if the credit is eliminated, the companies argue, and I think this is a fair estimate, that the United States would receive considerably more, but the effective tax rate on these corporations would increase to the 70 to 75 percent range, which could make them uncompetitive in foreign markets. I think that rate might well be a true figure.

On the other hand, if foreign investment gradually erodes industrial base in the United States, it will also erode our tax base and ultimately our standard of living. Then it might be reasonably asked, and I ask you, who is going to pay the cost of government, the needs of our cities, social insurance programs, our defense posture, et al. Wage and salary individuals are heavily taxed and without a strong manufacturing sector they would not have the income to pay for existing governmental services much less new programs.

Now, will you answer that overall statement of basic policy and if you disagree with any part of it identify it, and if you agree, what specifically, do you come to tell us you are going to do about it?

Mr. Flanigan. With regard to the latter, Senator, I don't believe you were here when I pointed out that we have not yet prepared administration recommendations on taxation of foreign income. We expect to do that shortly and I am afraid I can't answer the latter specifically.

Senator Hartke. Can I ask, then, how could you have possibly taken the precipitous action you took in 1971 if you didn't have a study in the Treasury Department? Didn't your predecessor administration study this matter at all? Didn't anybody think we were headed for disaster in the international monetary scheme?

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*See p. 414.

Mr. FLANIGAN. I am sure they have studies there. There are numerous studies but you asked me what we were going to propose and I am not in a position to say that because the final decision has not been reached.

With regard to the overall question, who is going to pay for the services at home which we need, and the suggestion that, these earnings abroad erode the domestic tax basis, is really the question of whether or not multinationals replace domestic jobs and create imports into this country, in place of production here.

It would appear from the studies made by the Commerce Department, your committee, the study that your committee requested of the Tariff Commission and some studies made by academics, that that isn't the case, the conclusion is that the multi-national corporations with investments abroad create additional domestic employment, that they don't export to any large degree, in fact they only export to a very small degree their production abroad back into this country. There will continue to be a strong base here, perhaps not the same level of total employment employed in manufacturing but that need not be the result of imports, that can be the result of the development of our own economy, and as I suggested to Chairman Ribicoff, I believe, before you came in, we have had a very dramatic decline in the portion of our work force that is engaged in agriculture but nobody suggests that that is the result of imports of agricultural goods. I would submit that a dramatic decline in other single areas and some decline in the manufacturing area may also be a national evolution of our society.

I think that the differential between exports and imports, when exports, I believe, are 14 percent of our production, excluding residential dwellings, and imports then are perhaps 15 percent, that the effect of thse on total manufacturing employment is mnimal as compared to inevitable structural changes in our economy.

Senator HARTKE. From that answer I take it that there will be no substantial change in tax policy. Contrary to what you may say, that you have not yet made a decision, you have in fact decided there is not going to be a substantial change in the tax policy in regard to the foreign tax credits nor to the taxation deferral on of unrepatriated profits.

Mr. FLANIGAN. No; I don't think you can come to that conclusion. There are other issues, some issues of equity that Senator Mondale suggested should be considered and will be considered. I was directing myself more to the question of whether we are going to have an industrial base and whether we are going to have a tax base in this country to pay for the needed Government services if we allow multinationals to continue. But what form of taxation of that income will be proposed, that income will be proposed, that I can't answer.

Senator HARTKE. Let me ask the question that I addressed to Secretary Connolly when he was Secretary of the Treasury. At the present time is it more advantageous for an American-based multinational concern, tax wise, to build a new plant in the United States or to build it in a foreign country?

As I said to him, if you are going to make a choice, taxwise, between Indiana and France, where is the best tax advantage to the corporation?

Mr. Flanigan. That question won't in my view be asked by many corporations until they had first asked a good deal of other more important——

Senator Hartke. I understand they ask a lot of other questions. I am saying when you come to the question of taxation, strictly on taxes, as of now, would it be more advantageous, taxwise, to build a new plant in Indiana or in Paris?

Mr. Flanigan. I would have to look at the corporate tax levied on income in that business in France and I don't know what that is. It would have to do with their depreciation allowances and the large number of other taxes imposed, including the value added tax, and I don't know what the aggregate incident of tax would be in France on a manufacturing facility.

Senator Hartke. All right. I will use Ireland.

Mr. Flanigan. It is unfair to ask Flanigan whether it would be better to invest in Ireland or not.

If they have no taxes and if all other things were being equal, all those other things being much more important in the decision in taxes, in that hypothetical case presumably the decision would be made to invest in Ireland.

Senator Hartke. But, Mr. Flanigan, what you come back to is the disparity in tax treatment. I don't think there is any use for me to prolong the discussion with you because I don't believe at this moment you are going to answer my question anyway. I don't see any reason why I should try to hammer something out of you.

Senator Ribicoff. I think in all fairness to Mr. Flanigan, you weren't here when he made his opening statement, he specifically stated that he would not discuss tax policy because there were no decisions made on tax policy at this time. He reserved for himself the right not to discuss tax policy because he did not have answers.

Senator Hartke. Who is the tax expert in the White House? I thought you were.

Mr. Flanigan. We refer that to the Treasury.

Senator Hartke. Mr. Schultz has that?

Mr. Flanigan. Yes, sir.

Senator Hartke. Let me just say to you again, just for the sake of the record, wouldn't you agree that if you had a proposition that you pay taxes on the earnings in the year in which they are earned, or if you could defer them, that the deferral is the better part of the bargain?

Mr. Flanigan. If that was the only consideration, if all other things were equal, in that hypothetical case I would.

Senator Hartke. And that is the law today in regard to foreign subsidiaries, isn't that true, that they don't have to pay their taxes until they are repatriated?

Mr. Flanigan. It is true there is a deferral of U.S. tax on foreign earned income.

Senator Hartke. And it is a common understanding by every administration and certainly by the people in the taxation field, that a tax deferral is in effect tax avoidance.

Let me make that statement. You don't have to agree to it.

Mr. Flanigan. May I make one statement though. In making the decision whether or not this would be a desirable investment in even as lovely a place as Ireland, one would have to consider the competitive situation in that country and if your competitors were incurring a lower tax burden than you, presumably they could get the same return on their investments as you and reduce prices and put you out of business, and that would obviously have to be considered carefully by the investor.

Senator HARTKE. Let me ask the other question on taxes. Isn't it true that a tax credit is worth almost twice as much as the tax deduction?

Mr. FLANIGAN. It depends on what the tax rate was.

Senator HARTKE. I mean inside of the United States with a corporate tax credit of 48 percent.

Mr. FLANIGAN. Certainly worth a great deal more.

Senator HARTKE. And that benefit is extended to foreign subsidiaries of American corporations. That is an admitted fact.

What is your position on the Canadian automobile agreement?

Mr. FLANIGAN. Our position is that that agreement is not working equitably, that it should be reviewed. We have pressed our Canadian friends for review and we intend to continue to do so until we can bring it into what we consider a more equitable position.

Senator HARTKE. I will help you.

Mr. FLANIGAN. Thank you.

Senator HARTKE. You also know that Canada is the only country which has an exemption under the interest equalization tax. Do you think that should be corrected?

Mr. FLANIGAN. I don't think I can comment on that. That is a matter that may well be under consideration, Senator, and I appreciate not being asked to——

Senator HARTKE. Let me ask you another question in a different field. I know I am going from area to area.

Senator RIBICOFF. Your time has run over by 3 minutes.

Senator HARTKE. I apologize.

Senator RIBICOFF. After Senator Roth I will be more than pleased to allow you another question.

Senator Roth.

Senator ROTH. Mr. Flanigan, I apologize, I had to leave a few minutes, so if I ask a question you have answered before please advise me. I left to appear before another committee and I might say it is easier to ask questions than answer questions.

One of the questions I would like to ask you is if we did away with all tariff and trade restrictions, at least in the industrialized section of the world, what would be the impact on the U.S. trade balance, balance of payments? For example, I was one time advised that if Japan had completely liberalized her laws, do away with restrictions, this would not improve our trade balance by more than a few hundred million dollars. I am just curious if we do succeed to move in the direction of free trade, what would be the impact on our country.

Mr. FLANIGAN. Senator, I don't think you can answer that question by its cause, as I suggested in the beginning of my testimony, that we believe it is inappropriate to look at trade alone, investment regulations alone or monetary systems alone.

We believe that we should have an open and equitable world of trade. That is presumably greater trade than we now have. But we also believe and in fact we are supported in this belief by practically all of the countries of the free world as they expressed themselves at the monetary conference last September.

We also believe that we have to be in equilibrium in our basic balance. After having gotten an equitable trading world, if we are not in balance, then we would expect that the parity of our currencies under a sensitive monetary system would change, so that we would be in balance.

Now if you ask me what would happen to our trade if our basic balance was in equilibrium, which is the goal of our effort, then on the assumption that we would continue to make investments abroad to develop resources perhaps in developed countries like Canada and Australia or even U.S.S.R., on the assumption we will still be bearing some burden of military expenditures abroad and that American citizens are going to travel abroad, I would expect that we would have to have a surplus in our trade accounts. It's that kind of a system that we are dedicated to structuring.

It is not just a system in trade or just a system in investment, but the whole international economic system has to be restructured so that we can reach this equilibrium in our basic accounts.

When people talk about the problem in that area and point out that we were $10 billion in deficit last year in the basic accounts and $10 billion in the basic accounts the previous year, and then when I run through that litany and suggest we have to do something about our trade accounts to balance it, they say that is impossible. Not at all. The swing in our trade accounts in 2 years from 70 to 72 was $8½ billion. If we could swing it in the one direction in 2 years there is no reason to think we can't swing in the other. It is the whole international economic system that we are dealing with, that we are negotiating on, on several fronts——

Monetary in the group of the 20 and trade in the GATT negotiations scheduled for the fall.

Senator Roth. In respect to Gatt and future negotiations, are you giving any thought to renegotiating those provisions that deal with subsidies and border taxes which permit rebate of indirect taxes such as value added tax on exports and at the same time deny equal treatment for our direct taxes?

Is this line a possibility?

Mr. Flanigan. That matter along with the other tax matters, is under consideration at the Treasury.

But I can't express an opinion on that.

Senator Roth. You made a number of references to our country bearing the major burden for the free world defense. I wonder if you could submit for the record an estimate of our net balance-of-payment position on defense expenditure, that is, the extent to which our defense expenditures abroad for our own troops, bases, as well as in military aid exceeds our seating requirements, in countries such as West Germany?

Mr. Flanigan. I would be happy to do so.

(Mr. Flanigan subsequently submitted the following:)

IMPACT OF UNITED STATES DEFENSE EXPENDITURES ON THE UNITED STATES BALANCE OF PAYMENTS

U.S. balance of payments data reflect the following receipts and expenditures on military account (figures are stated in $ millions):

	1968	1969	1970	1971	1972[1]
Direct U.S. defense expenditures	−4, 535	−4, 856	−4, 852	−4, 816	−4, 716
Receipts from exports under U.S. military agency sales contracts	1, 392	1, 512	1, 478	1, 922	1, 153
Net	−3, 143	−3, 344	−3, 374	−2, 894	−3, 563

[1] 1st 3 quarters annual rate.

The figures given for direct defense expenditures include an estimate of the private expenditures abroad by U.S. military personnel and their dependents as well as U.S. Government procurement of foreign goods and services.

The receipts from exports under U.S. military agency sales contracts include military equipment sold under agreements negotiated by the U.S. Government partially to offset the balance of payments effects of U.S. military expenditures overseas and military equipment sold on credit provided by U.S. Government.

Senator ROTH. I understand that much of labor looks upon adjustment asistance as burial insurance. Are you giving any thoughts as to better and new ways of trying to ease dislocation caused by import competition?

Mr. FLANIGAN. I think there are two answers to that question, Senator Roth.

One of them goes to the import restraint approach that I discussed with Senator Packwood. Obviously, to the extent that you give an industry time to adjust, that benefits its workers.

The second aspect would be even given that adjustment period, what can you do for the workers that are injured by imports?

We are giving a lot of thought to that problem trying to find appropriate ways in which to meet it.

Final decisions have not been reached and we have discussed it with some of you and will be discussing it with others before we put it in legislation which we will propose to the Congress.

Senator ROTH. One final question:

A number of leading articles and commentators are saying that the so-called energy crisis is going to make our current balance-of-payments problem miniscule. I wonder if you would care to comment on the impact of the energy problem and to what we have to try to do to meet it in the future?

Mr. FLANIGAN. It's perfectly clear if you project the current trends we will have a very substantial burden of imports for energy. That doesn't necessarily mean that we are going to have a terrible balance-of-payments problem because you can readily look at countries such as Japan and the Community, Europe, where they are almost 100 percent in reliance on imported energy and they have a very comfortable balance-of-payments situation, so the two don't necessarily go together.

With regard to the United States, however, I don't think it is necessary that we project inevitably and indefinitely the current trends, it is within our ability and certainly within the resources that are said to lie within this country, to keep our reliance on imported energy in some reasonable bounds.

As you know, the President is addressing himself very urgently to that problem, and he will be sending to the Congress his suggestions, both legislative and otherwise, in the not too distant future, but I can't tell you what they will be and, therefore, can't propose the impact on our balance of payments.

Senator ROTH. Let me ask you this, in light of your answer: What about the productivity problem of this country? Many people believe that the problem is basically caused because American productivity generally has not kept up with other countries such as the Japanese workers.

You mentioned that Japan did not have a balance-of-trade problem and I suppose many people would answer you, that that is because of its high productivity.

Does that mean that we are going to have to take a new look at the productivity of the American industry?

Mr. FLANIGAN. We most assuredly have, if we wish to keep our relative standard of living with other countries, we have to maintain our relative productivity but it isn't necessary to have high productivity in order to be in surplus in your accounts. You can have low productivity, low standard of living and be in nice balance-of-payments position.

That is not a happy position as far as we are concerned. We want to keep our standard of living high. That doesn't necessarily mean that we want to keep other peoples' low.

If they want to work a great deal harder than Americans, and, therefore, increase their standard of living faster than we, even though they have a long way to go before they get to us, that is a decision each nation and each people have to make for themselves.

In this country if we want, as we do, to maintain our high standard of living, in fact to make it higher, we are going to have to pay a great deal of attention to our productivity and it is a responsibility for management, for labor and for government, as well.

Senator ROTH. Thank you, Mr. Chairman.

Senator RIBICOFF. Before I turn this over to Senator Hartke for more questions, I have some thoughts.

Practically every foreign government has a well-defined long-range foreign trade strategy. The United States has never had one. You have the obligation, it seems to me, when you come up here with your trade bill to spell out what the long-range foreign strategy of this administration and this Nation is.

I also believe, as I listened to your last remarks, that you have taken on quite a burden on your shoulders to turn around a $7 billion trade deficit and a potential additional trade deficit in about 5 years of $15 billion due to the energy crisis, as indicated by Senator Roth.

Furthermore, I think that the Burke-Hartke bill is a bone in the throat of this administration and you are going to have quite a task of coming up with alternatives to the Burke-Hartke proposal.

It stands, as Senator Hartke says, out there all by itself. The tempest swirls around this legislation as people either condemn it or praise it.

So far, I don't believe those who condemn Burke-Hartke have come up with specific alternatives to all of its provisions.

Have they, Senator Hartke?

Senator HARTKE. Not to my knowledge.

Senator RIBICOFF. There are important problems raised by this bill that concern all of us. This is a serious committee trying to do a very serious job, and you have quite a job cut out for you in introducing a trade bill.

Frankly, I would rather see you take a few extra weeks to work out your long-range plan than have you come up with a trade bill that gets to be a shambles. I think everyone would be better off if you took those extra few weeks.

Mr. FLANIGAN. May I respond to that.

With regard to a trade philosophy, let me say that we recognize that Senator Hartke has the only game in town at the moment and that it is incumbent upon us to provide an alternative. But we look at that not as an opportunity to present solely a trade philosophy but rather an opportunity to present a philosophy for dealing with our international economic relations.

It was that broad consideration that led the President to create a Council on International Economic Policy, not a council on trade, and we have expressed, he has expressed and hopefully will express in more detail when he sends his trade message to you, what that philosophy is.

That philosophy is the determination that this Nation be in equilibrium in its basic accounts and not that we necessarily do something only about trade. Being in balance in trade will not be enough.

As I have tried to indicate this morning, we may have to be in surplus in trade. There are some nations which appropriately should be in a deficit in their trade accounts.

Take, for instance, a developing country which benefits by large inflows of capital. It properly should not be in a balance in its trade account, it should probably be in deficit.

Our basic goal is to be in equilibrium in our basic accounts and given our position in the world that may well be that we should be in some kind of surplus in trade.

We then in our overall trade philosophy believe that we should reach that position by virtue of an open and equitable trading world and it is that philosophy that will underlie the provisions of the trade bill that we send to you.

Together with that approach to trades we feel that there should be relative freedom in the movements of capital. It is for that reason that we have said by the end of 1974 we are removing restrictions on capital here and in that overall situation that we must have a monetary system that will contribute to this equilibrium.

That is a short statement which needs, of course, to be flushed out, but that is the fundamental policy that is guiding our work on the trade bill.

Mr. FANNIN. I would like to clarify one point. There have been numerous bills introduced that would apply to our trade, foreign trade.

There has not been a comprehensive bill introduced but I could name several bills that have been introduced and been considered. They have not passed. But I wouldn't want to let the record show that no other legislation has been introduced because it has.

I have introduced bills myself in regard to trade. So I do want to clarify that record.

Senator RIBICOFF. Senator Hartke.

Senator HARTKE. Thank you, Mr. Chairman.

I want to thank you for really making very clear what the problem is. Let me say I am willing to work with the administration. I definitely said that before.

I will say this to you, I did not get my information from the administration. I do feel that it is not in the best interests of this Nation for the administration to be secretive about its intentions. I would never criticize you about coming up with a proposal and changing your mind. What I do say is that it is difficult to go ahead and try to rationalize the political and foreign trade philosophy of the President with what he has been saying. He has said that he wants to go ahead and institute safeguards. I don't know what you mean by safeguards. Can you tell me?

Mr. FLANIGAN. Yes. I attempted to describe that to Senator Packwood.

What we mean by safeguards are import restraints which in the case of fair competition——

Senator HARTKE. Can I just stop you so we don't go into a long dialog which just loses both of us. Import restraints, quotas, tariffs, both?

Mr. FLANIGAN. Senator, we are in the process of developing the trade bill, as you know. Far from attempting to be secretive, I have been under the impression and have certainly believed that we had called your office in order to set up a date in the not too distant future.

Senator HARTKE. We called your office. Mr. Hughes who is behind me contacted Mr. Eberle and we have made arrangements to get together. I did finally take it upon myself to take the initiative.

Mr. FLANIGAN. I was not aware of the call. When I asked Mr. Eberle if he would get together with you, we were not trying to be secretive. We are trying to get input from you and your colleagues as to what the appropriate design of a trade bill might be. We don't yet have it in legislative language and, therefore, I can't tell you whether the restraint would be a quota restraint or tariff restraint or tariff quota-restraint. But safeguards mean some kind of restraint.

Senator HARTKE. Could you tell me any other type of restraint which really could be considered? In other words, it would have to be a tariff or quota combination?

Mr. FLANIGAN. Yes; I suppose you could go into some kind of standards restraint that would have the same effect but not quite be a quota. But that wouldn't be——

Senator HARTKE. Let me ask you this, do you anticipate that would be an automatic triggering device?

Mr. FLANIGAN. I don't believe that I can appropriately anticipate. That would be a personal opinion that I hope would develop to a stronger conclusion after talking to you and your colleagues.

Senator HARTKE. I think people have a right to be concerned. Take the shoe import problem in which the Tariff Commission had a tie vote. It has been in front of the administration how long?

Mr. FLANIGAN. Something over a year.

Senator HARTKE. Now, in this case there has not been a decision, is that right?

Mr. FLANIGAN. There was a decision made that the appropriate solution here would be to ask the major exporting countries if they would please consider the imposition of a limitation on their exports as was successfully done in the agreement of the steel industry and in the textile industry. We have engaged in those discussions. We in fact were successful in getting such an agreement from the major exporter. We have not been successful in getting it from the other exporters and we continue in that effort. Given what might come out of a trade bill, perhaps there would be other alternatives that would be attractive.

Senator HARTKE. I will tell you what I understand, not from the administration, but what I understand to be the bear bones provisions at this moment of the President's trade package. That first he would have unlimited authority to raise or lower tariffs. There is some implication it may be a 50-percent limitation in either direction. I understand that is no longer in consideration and has been discarded. That there will be a symetrical balance-of-payments surcharge, discretion to impose a surcharge in running a deficit and remove it when it is in surplus with broad authority to retaliate against countries that discriminate against U.S. exports. There would be no mathematical formula to trigger the surcharge. Application for surcharge would be to the Tariff Commission. With regard to safeguards, the present law says that if imports are increased as a result of the tariff concessions and imports are a major cause of injury safeguards that would apply, that would be changed to a simple increase in imports regardless of cause, and imports instead of being major cause would have only to have a substantial impact on an industry. The safeguard might be imposed on a most-favored nation basis or on a selective country-by-country basis as the Tariff Commission finds that imports are likely to be a substantial cause of damage to a domestic industry. The President would seek the following range of options. No. 1, to do nothing. No. 2, to impose quotas. No. 3, to raise tariffs. No. 4, to provide adjustment assistance. Still there is some question as to whether this request would be made or not. And No. 5, to negotiate voluntary agreements.

My understanding is there would be no time limit for the Tariff Commission action.

Now, all I am saying to you is that the information that I have suggest complete abdication by the Congress of its responsibility in the field of foreign trade. It would give to the President complete authority to do whatever he wanted to do in every regard on quotas and tariffs and import restrictions.

If you really want to get tough, why don't you say that every type of concession, every type of negotiation of this kind will ultimately have to be subjected to the elected representatives of the people, the Congress of the United States?

Mr. FLANIGAN. Senator, I don't think it would be appropriate for me to comment on what you understand the bill to be when we haven't reached a decision as to what it would be.

Senator HARTKE. But I am asking you why don't you agree that the Congress should pass upon any of these items rather than to go ahead and ask us to hand another Gulf of Tonkin resolution to you?

Mr. FLANIGAN. Senator, it seems to me that it would not be proper for the Congress for instance, to go over and negotiate.

Senator HARTKE. I am not going to negotiate. We are just asking you to submit your proposition to the Congress for approval.

Mr. FLANIGAN. We are.

Senator HARTKE. You don't like——

Mr. FLANIGAN. We are proposing to submit a proposition to you and to come up and talk with you ahead of time and we hope that you will approve it.

Senator HARTKE. This is probably the heart of the problem. Congress still feels somewhat of a responsibility to its people to provide for some type of judgment on these matters rather than completely abdicating all of its responsibility to the President. Take adjustment assistance. My understanding is that the excuse for not really giving serious consideration to an extension of adjustment assistance is twofold. One of them is that there are really no policies for training people who are thrown out of work, and the second is the cost.

My understanding also is to the effect that any adjustment assistance provision would extend for a period of 3 years at which time it is hoped that the administration would come up with a substantial increase in unemployment compensation which would have to be borne by all of the major domestic corporations.

If that is your intention, I can guarantee that the American people do not want to have additional burdens of unemployment compensation caused by the erosion of our trade base, or a substantial increase in our welfare payments—simply because we do not know how to put together a trade package. I think the American people have a right to expect their Government to be responsible for their opportunity to make a living, to support their families, and to pay their taxes.

Mr. FLANIGAN. Senator, Chairman Ribicoff, at the opening said he hoped I would so enjoy this discussion on multinational corporations that I would be happy to come back again and I must admit that the multinational corporations has been enjoyable indeed. When we have a trade bill ready to discuss I hope you will ask me back and I will come back and discuss the trade bill.

Senator HARTKE. How much profit did the multinationals make in their trading on the dollars in the 30 days before devaluation?

Mr. FLANIGAN. I don't know the answer.

Senator HARTKE. Did they make a profit?

Mr. FLANIGAN. I have no idea whether or not they transferred funds or to what degree they transferred funds.

Senator HARTKE. Let me give you an idea then.

Mr. FLANIGAN. Sure.

Senator HARTKE. Really, you have all of these people at your disposal. I can't understand why you don't come up with better answers. That is a nice out, isn't it? I retract it.

Mr. FLANIGAN. When you give me your figure I would like to know where you got it so we can use the same sources.

Senator HARTKE. There was about $70 billion of free dollars floating throughout the world. That has been reduced to less than $50 billion So you can figure out what the price of the dollar was 30 days before devaluation and what it ultimately was at devaluation on about $20 billion. It doesn't even take new math to figure that one out.

Mr. FLANIGAN. Without trying to dispute your figures, I can see a condition in which a company had an obligation in one currency, believed there was going to be a change, bought the other currency and ended making no profit at all, just avoided a loss. So I am not sure, I don't understand fully why there are now only $50 billion and I believe there were $70 billion. I don't know where the other $20 billion went.

Senator HARTKE. They were sold on the market and the central bankers picked them up. I am not against the multinationals trying to go ahead and look out for their interests, but I do think that there is here a basic sovereignty issue which must be considered. Some say that an American corporation has a responsibility for profit above and beyond his concern for his country and its future. If that same principle were applied in the field of military service, then you would be saying to these people; "No, they don't even have to ask for amnesty, for what they did—putting their own personal interest before their country." I think the multinational American-based corporation has a responsibility to this Nation as a corporate citizen not to go ahead and do anything which is ultimately going to be in disrespect of that sovereignty.

Mr. FLANIGAN. Senator, I am sure you didn't mean to say that I had said the corporation has a responsibility above that.

Senator HARTKE. No.

Mr. FLANIGAN. I didn't say.

Senator HARTKE. Let me clear that up real quick. I didn't say you said anything. That was Vance Hartke talking all on his own.

Mr. FLANIGAN. I agree with you on the responsibility of a multinational for good citizenship in the country in which it is operating and I said so in my prepared testimony.

Senator HARTKE. That is all.

Senator FANNIN. I would like to correct one statement I made. When I said a bill had not been introduced, I was wrong. I am advised that Senator Schweiker of Pennsylvania introduced a comprehensive trade bill last year and has reintroduced it this year.

Senator MONDALE (presiding). We stand in recess until 2 o'clock. I want to conclude with one observation. There has been a great deal of speculation about the role of multinationals in the hopefully recently concluded currency crisis and that question came up four or five times in four or five different ways. I think it is very important that your council give top priority to that issue along with some of the others we discussed so we might get a better idea of what the facts are. I think that is important.

Mr. FLANIGAN. Senator Mondale, we will see if we can get some facts for you.*

Senator MONDALE. We recess until 2 o'clock.

(Whereupon, at 12:35 p.m., a recess was taken until 2 p.m. of the same day.)

(Questions submitted in writing to Mr. Flanigan by the subcommittee and his responses follow:)

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*See material provided for the record by Mr. Flanigan at p. 18 ff.

Question. Can you tell me what kinds of circumstances under which the President might use the import surcharge authority he is apparently seeking in new trade legislation?

IMPORT SURCHARGE AUTHORITY

Answer. We have, of course, already seen one situation in which the imposition of an import surcharge by the United States was used, in 1971, to stimulate action by the international community to face up to a serious problem and agree to begin the necessarily difficult process of reform to deal effectively with it.

As to future circumstances, I would refer to Secretary Shultz's speech to the Board of Governors of the International Monetary Fund in September of last year. In his discussion of a reformed monetary system in which the adjustment process would be more flexible, more symmetrical and more effective than now, he noted that countries suffering from persistent deficits "would be expected to initiate corrective actions." These could take a variety of forms (e.g., devaluation, stricter internal financial disciplines, etc.) Another action, taken in "exceptional circumstances and for a limited period", could be direct restraints on trade or other transactions. He also suggested that it could be used by countries "to protect their interests by surcharge on the imports from a chronic surplus country" in the absence of truly effective measures by the latter.

It is, in short, an authority which we believe should be explicitly available in our law, and which we could have access to in those exceptional circumstances when it would be an effective tool to use in correcting a payments imbalance.

Question. I have in my hand a statement of policy for procurement of turbine generators at the Grand Coulee Dam issued by the Interior Department on February 12, 1973. It states:

" . . in accordance with its policy of expanding opportunities for international trade on a fair and equitable basis, the United States Government will open the bidding for purchase of three hydro turbine-generators for the Grand Coulee Dam on the basis of world-wide competition. (Only domestic bids were accepted for the first set of three turbine-generators purchased during 1967.)

"The decision in favor or world-wide open bidding represents an expression of good faith on the part of the United States in multilateral discussions to remove nontariff barriers in the Government purchasing area. A major objective of the U.S. action in this case is to give fresh impetus to the achievement of an early agreement on a draft government procurement code currently under discussion in the Organization for Economic Cooperation and Development (OECD)."

Does this Administration feel that a show of good faith on the part of the United States will actually move other countries to eliminate their barriers against American exports? It took a 10 percent surcharge and Buy American tax credit to get them even to consider a currency revaluation. Why should we make unilateral concessions as a show of good faith?

GRAND COULEE DAM

Answer. The issue in the Grand Coulee matter was not whether to have closed bidding or free and unrestricted bidding. Rather the issue was whether to allow bidding with normal Buy American preferences for domestic producers or to eliminate foreign bidders altogether. Thus we did not give anything up to foreign manufacturers in the Grand Coulee procurement. Instead we used that occasion to point out to our trading partners that they have much to lose if they are ejected from U.S. markets, in this case the U.S. government procurement market. We have stated that the price for retaining open U.S. markets for products of other countries is the availability of equally open markets abroad for our products. In the Grand Coulee announcement we made it plain that this same attitude applies in the context of government procurement.

Question. In its discussions with the USSR last year, what did the Administration learn about the prospects for "joint venturing between U.S. firms and State-owned East European enterprises?

"JOINT VENTURES"

Answer. We learned that the Soviets are very interested in obtaining U.S. capital, technology and business know-how for the development of Soviet industry and raw material resources, particularly gas, oil, timber and certain metals. The Soviet definition of "joint venture" in these areas is much broader than ours. For example, the Soviets may include what we refer to as a barter deal—the exchange of products of equal value, or compensation agreements—in which repayment for the export of a U.S. plant, for instance, may be part in cash and part in output from the production of that plant. Such arrangements may be less specific, such as a general cooperative agreement between a specific Western firm and the USSR, looking toward future exchanges of technology, plants or products. Both Occidental Petroleum Company and General Electric Company have signed such agreements with the Soviet Union.

A "joint venture" in our sense of Western equity in domestic Soviet enterprises is an anathema to the Soviets and they have made no bones about it. What the Soviets are interested in when they talk about Western participation in projects in the USSR is the export of Western equipment, capital and know-how on credit with repayment in the product produced by the installation or project in question. Western participation in building the installation and putting it into operation is accepted but no further Western participation is permitted. The cooperation deals concluded by the Japanese with the USSR to expand the output of timber and wood chips and to develop the port of Vrangel in the Soviet Far East are essentially long-term turn-key projects as was the Soviet-Italian agreement to build the Fiat Plant.

The Soviet proposals to develop various raw material resources with Western capital—gas, oil, timber, metals, etc.—are of the same variety. They are distinguished from those concluded in the past only by the significantly larger sums of Western capital that will be required. As you know, several U.S. firms are discussing with their Soviet counterparts proposals involving natural gas and petroleum.

To date, few U.S.-Soviet cooperative deals have been concluded and these fall mainly in the consumer or tourist category—the recent Pepsico deal and several involving U.S. credit card and auto rental companies.

The USSR and Eastern European countries have entered into several hundred cooperative ventures with Western firms in the past decade. The chief Communist motives for participation in these ventures are the acquisition of advanced Western technology, equipment and production and managerial know-how, and the expansion of exports, primarily to the West.

Production sharing and jolnt marketing arrangements have been the principal types of ventures in East-West cooperation. Production sharing is an arrangement which involves manufacturing or assembly as an integral part of the venture and theoretically provides a vhicle for the acquisition of Western technology. The arrangements run the gamut of simple subcontracting to complex agreements involving the transfer of technology, know-how, training of specialists, royalty payments, sharing of markets and the like. The location of the production sharing venture may be in the East or West or both. The joint marketing firms are usually domiciled in the West but the Communist partner is normally the majority stockholder. Many production sharing and virtually all joint marketing ventures are designed to expand exports to the West. Another type of East-West cooperation which seems to be of increasing interest to the East European countries is the cooperative venture intended to attract Western tourists and involves the construction of hotels, motels, or other facilities to enhance the tourist infrastructure.

Apart from a useful exposure of management to Western influence and example, the Communist countries have as yet realized little of what they desire from cooperative ventures. They tend to look to advanced technology rather than to changes in economic organization for stimulation of their economies. But Western firms are hesitant to release their newest technology to possible competitors or to producers who may not be able to meet their standards of quality. The potential for export expansion is as yet not demonstrable. Poland and Hungary, the only two countries for which we have information, so far have earned little from ventures involving joint production. In 1971 exports of "co-produced" goods to the West totaled only $15–$20 million for Poland and less than $10 million for

Hungary, although these account for a substantial portion of their machinery exports to the West.

As a means of further stimulating Western interest in cooperative ventures, Hungary and Romania enacted laws recently which permit Western equity up to 49% in production sharing arrangements. Poland is also considering such a law. Yugoslavia has had such a law since 1967 (liberalized in 1971) but has attracted only about $90 million in Western capital.

The USSR was a pioneer among the European Communist countries in concluding cooperative venture deals with Western firms. Of the 30 or so cooperative ventures concluded with Western firms, all but three are joint marketing or joint shipping arrangements. The three production sharing ventures—involve Western European or Japanese firms, in mining machinery, numerically-controlled machine tools, and motor vehicles—and call for the export of products of the ventures to Western destinations. The USSR evidently prefers to acquire Western technology through other means such as imports of equipment, licensing, and scientific and technical exchanges.

Question. Do you think that difficulties attributed to existence of multilateral corporations described on page 19 of your statement should be dealt with by international rules and new mechanisms for multinational enforcement? Is there a need for a "GATT for Investment"?

Answer. In general, I believe that most of the fears and apprehensions I noted on page 19 of my statement are greatly exaggerated and, in the vast majority of cases, without foundation, either in past experience or current reality. All nations have laws governing the activities of companies established in their territories and the foreign investor is as subject to those laws and their enforcement as the domestic company is.

However, the fact that these apprehensions exist, and that they have led to a variety of national laws and practices aimed mainly or even exclusively at investment by foreigners is a reality which none of us interested in an orderly system of international economic relations can ignore. We cannot, therefore, seek to bring orderly codes and rules to bear on the operation of trade and monetary transactions among nations without assuring ourselves that investment transactions are also treated in accordance with rules which are reasonable, fair and serve to reinforce the objectives to which nations have agreed for the economic system as a whole.

Part of this problem may well be susceptible to resolution just by getting countries to agree about the actual facts of international investment. People generally fear or distrust something they know little about, and it is certainly true that international knowledge and understanding of the facts of international investment are not what they should be.

Beyond the need for such understanding of the real situation, it is conceivable that better international arrangements or rules concerning policies toward foreign investment may well be needed. Though a variety of very general rules exist (whether in forms like the OECD's Capital Movements Code or in bilateral treaties with provisions on investment which we have with many countries), there is always room for review of their effectiveness and for consideration of new rules where old ones no longer serve. It is our intention to urge that just such studies and reviews be undertaken in institutions like OECD so that we can, with other interested countries, evaluate the need for a new set of rules. But, it is too early to say now, with any certainty or well-conceived views about content, that a "GATT for Investment" (interpreting that to refer to a set of rules and institutional arrangements for their application) is the best way to deal with this set of issues.

AFTERNOON SESSION

Senator RIBICOFF. The committee will be in order. Our witness today is Mr. Donald Kendall, the head of a multinational company, PepsiCo and chairman of the Emergency Committee for American Trade.

Mr. Kendall, we welcome you and appreciate having the benefit of your views, and you may proceed at your own pace, sir.

STATEMENT OF DONALD M. KENDALL, CHAIRMAN, EMERGENCY COMMITTEE FOR AMERICAN TRADE

Mr. KENDALL. Thank you.

Chairman Ribicoff and committee members, my name is Donald M. Kendall and I am most grateful for the opportunity to testify today both in my capacity as head of a multinational company, PepsiCo Inc., and as chairman of the Emergency Committee for American Trade. I am sure that my ECAT colleagues share my respect for the fine manner in which you are giving your attention and directing public attention to matters so vitally important to all of us.

The subcommittee's "Outline of Hearings" says that "the multinational corporation may well be the most significant economic phenomenon of the 20th century." I certainly agree. I also agree with the views set forth in the "outline" calling for a clearer understanding of the multinational corporation.

The members of ECAT are heads of large corporations with international operations. Since we came together in 1967 to work for a more open and prosperous world, we have been aware of the need for a clearer public understanding of what our companies are and how they operate. We have tried to contribute to such understanding.

Your "outline" states the issue well. It is not just the international operations of multinational companies that are misunderstood. The same is true for the domestic operations of these companies and for that matter, trade and investment in general.

We saw good evidence of this after the February 12 devaluation of the dollar and the floating of the Japanese yen. As you know, there was considerable concern and confusion at the time. There still is. These are not simple issues and they are not often considered by most Americans. Yet, it was encouraging to see how much public interest was given to them and how well the President, Secretary Shultz, the Congress, the press, radio, and television responded to this interest.

What was also encouraging was the apparent widespread public approval of the actions taken by the United States in concert with our trading partners.

The challenge now is to build on this interest and this apparent national agreement. I hope your hearings will lead to more agreement among Americans on international trade and investment and monetary matters.

There are, of course, those who feel that severe restrictions should be placed on the whole lot. Others feel that these restrictions would have disastrous results, raising prices and destroying jobs. Still others, made uneasy by the great hubbub this difference of opinion has raised, and knowing little of the facts, feel that where there is so much smoke, there must be fire. They might easily be led to condone restrictions on the grounds that they cannot hurt.

Well, it can. It can hurt. Many Americans can be thrown out of good jobs. Many, particularly the poor, can be forced to pay higher prices and a very great deal of traditional American free enterprise can be smothered.

This is the ECAT view of it. I am well aware that there is a strongly held and totally opposing view. And I appreciate the admonition in the subcommittee's "outline" against a "recitation of the familiar cliches concerning free trade and protectionism."

I am wholly with the "outline" writer. Clearly, now is the time for thinking Americans to substitute reason for rhetoric in this matter and call for a sober examination of the facts. Fortunately, more facts are at hand now than ever before. The Tariff Commission study of multinational companies requested by both the subcommittee and the full Senate Finance Committee was released only this month. The Bureau of Economic Analysis of the Department of Commerce issued its study of multinational companies last November. These works combined with those of private organizations such as ECAT have raised substantially the standard for discourse on this issue.

There are still uncertainties and there are still serious problems but it can now be shown that many of the allegations about multinational corporations, and even some of the widely held theories, are simply contradicted by the facts. In particular, the studies show that there is no truth in the allegation mentioned in your "outline" that "the deterioration of the U.S. position in world trade and our current high rate of unemployment is due, in large measure, to the operation of our multinational firms."

This is a clear case of mistaken identity.

When I say this, I am not dismissing the problem. We do have a trade deficit, a balance-of-payments deficit, and we have unemployment.

What I am saying is that these are not the fault of the multinational corporation. I will present data to show that without the multinational corporation, matters would be far worse and the means of correcting matters would be far less accessible.

Nor do I mean to say that international investments by American companies have never caused problems for American workers. They have. In some fields, such as consumer electronics, American companies have moved production abroad. But they have done so to be competitive with foreign producers so as not to abdicate production to foreign competitors with the adverse consequences that would follow to U.S. companies, shareholders, employees and the U.S. economy.

What is required of us in light of these facts is a sense of proportion and a willingness to follow a line of reasoning to wherever it leads. In the case of trade and investment, I have no doubt that it will lead to the conclusion that restrictions are not the answer to our problems.

Prime among the allegations is the notion that multinational companies, in the aggregate, export jobs. Much sloganeering, pamphleteering, and other approaches at persuasion have been put forward on this theme by proponents of restrictions. The tone of the material is dramatic but the text is seldom precise on facts and statistics.

For example, the cover of one pamphlet directed against multinational companies proclaims, "Almost a million jobs lost," a claim modified in the overleaf to the "equivalent of 900,000 jobs." Job losses are given in another pamphlet as "half a million," elsewhere established as "hundreds of thousands," and in another case as "untold numbers."

This does not help. I know the people who write these things are sincere but they have an obligation to the unemployed as well as to the public and to you as legislators to be more careful of their facts.

Let me address myself first to the facts on the multinational company and then to the problem of international trade.

On overall employment, the Commerce Department survey shows that from 1966 to 1970, employment in the United States by multinational companies grew faster than employment in the average American company. Multinational companies increased their payrolls at an average rate of 2.7 percent per year—one-third greater than the national average of 1.8 percent. They added almost a million employees and these were not the best years for adding workers to payrolls.

In manufacturing during these years, the rate of employment growth for the multinational companies was 1.9 percent compared to 0.2 percent for all U.S. firms. Neither were doing very well but the difference is dramatic—almost 10 to 1 in favor of companies with international operations.

The ECAT survey came to the same conclusion. It reports that from 1960 to 1970, the 74 companies covered increased their domestic employment by nearly 900,000 from 2.5 million to 3.4 million persons. The rate of increase in their domestic employment during that period was 3.3 percent per year. This was more than twice as high as the 1.4-percent rate of the average U.S. manufacturing firm.

The Commerce Department survey also reports that U.S.-based multinational companies pay higher wages and salaries to their employees than do other firms in the same industries. This is not surprising, since they are among the largest, fastest growing and most technologically advanced firms in the United States. The survey shows that domestic payroll costs per employee of the multinationals in the sample were substantially higher—by $1,270 per annum—than for all U.S. firms. In manufacturing, they were nearly $1,000 higher.

The ECAT survey also notes that industry-wage structure and major collecitve bargaining settlements in recent years show greater-than-average gains for U.S. labor in industries where multinational companies are concentrated and whose exports are high. The average annual first-year increases granted in wage settlements in major collective bargaining agreements rose steadily from 2 percent in 1964 to 7.5 percent in 1970.

According to the U.S. Department of Labor, the average hourly wages of the four U.S. industries with the highest level of overseas investment—petroleum, chemicals, transportation equipment, and nonelectrical machinery—are among the six highest categories of U.S. major manufacturing industries.

These are facts, gentlemen—facts gathered independently by parties with no common aim—and they are remarkably consistent with each other.

There are facts about the operations of multinational companies in a number of categories other than employment that have been uncovered in these studies. I will only go into one of these, that of imports into the United States from foreign production facilities owned by American multinational companies. However, I would like to request that the complete ECAT study be made part of the record of these hearings.

Senator Ribicoff. We have it as part of our compendium, sir.*

Mr. Kendall. Thank you.

Senator Ribicoff. It is in the record now.

Mr. Kendall. On imports, if the allegation that American companies invest abroad to avoid high U.S. wage rates and to supply the U.S. market with products of "cheap" labor is true, then it should follow that the parent companies or others should import a large proportion of the production of American-owned foreign affiliates.

A key fact brought to light by both the private and the Government studies is how little of such production is imported into the United States. Two points that stand out from the ECAT survey are:

1. Foreign affiliates outside Canada exported only about 2 percent of their total sales to the United States during the 1960's, and of this 2 percent, a substantial portion represented imports of raw and other materials for U.S. processing—materials which presumably would have been imported into the United States in any event.

2. All of their imports including raw materials from non-Canadian affiliates amounted to only 0.7 percent of their American production in 1970.

The Commerce Department survey reveals that the imports of the companies covered in their survey expanded somewhat faster than total U.S. imports due largely to the Canadian auto agreement and increased oil imports. The surveyed companies nevertheless increased their surplus of exports over imports from $5.3 billion in 1966 to $7.6 billion in 1970.

All of the studies show that multinational companies are making a huge net contribution to our balance of trade and our balance of payments. Imagine, gentlemen, what the U.S. trade balance would look like without that $7.6 billion trade surplus. It would seem clear that U.S. multinational companies are not responsible for the U.S. trade deficit.

On the subject of why American companies invest abroad there are many interpretations.

One, glibly set forth in a restrictionist brochure, is that American multinational companies are "roaming the world in search of high profits from low wages."

I submit that this is a subjective interpretation not based on serious analysis but simply on the fact that it sounds reasonable and that wages abroad are usually lower than in the United States. It, of course, leads to the conclusion that if American companies did not invest overseas, they would serve overseas markets by exports from the United States.

This interpretation is rejected by the studies of the Tariff Commission, the Department of Commerce, ECAT and others.

The Tariff Commission study says that the most realistic assumption is that in the absence of foreign investment by U.S. multinational companies, exports could not fill the void and there would be a net loss of half a million American jobs as foreign producers took over entire markets.

All of the surveys show that American multinational companies have concentrated their investments in countries where wages are relatively high. More than two-thirds of United States foreign investment in the past 10 years was in Europe and Canada, neither of which are "cheap labor" areas.

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*Committee Print, February 21, 1973, "Multinational Corporation."

In the field of manufacturing, the Commerce Department survey found that 75 percent of the growth in employment in foreign affiliates of American companies took place in industrialized countries where wages are relatively high.

Another area of interpretation involves technology. As you know, there are proposals that would restrict the use of American-generated technology abroad. These are based on assumptions that the flow of technology is a one-way affair and that if foreigners are denied American technology, they would have to import the products of such technology from the United States and certainly would not be able to export such products to American markets.

This interpretation runs into trouble almost everywhere. The Tariff Commission found that high technology industries are pacesetters in generating American exports and such industries, of course, thrive in an environment where technical information is widely disseminated.

No one questions that the United States should receive benefits from technology developed here either by private industry or by the Government. On the other hand, very few observers seem to think that a policy of secrecy and retention would work. A study commissioned by the Industrial Union Department of the AFL–CIO states:

> Technology, like capital, is no longer the private preserve of the United States. As world trade becomes more integrated, there is no longer any possibility of keeping our technological advances at home. The world has become too small for secrets.

I am certain that every member of ECAT would agree with that. Anyone who thinks that the flow of technology is all one way from the United States to overseas is naive. As the B. F. Goodrich Co., has pointed out, "A vivid example of the free flow of technology and its impact on American plants is the radial tire." Still another example of foreign technological breakthrough which has been of enormous benefit, building both jobs and profits for America, is the diesel engine. While invented in Germany, we build and export more diesel engines by far than any other nation in the world. We also sell a great, great many turbine engines, also invented in Germany, and it is entirely possible that you and I have a Wankel in our future.

These are not isolated examples. I will wager that half the people in this room own doubleknit clothing, and made in the U.S.A., from technology developed in West Germany, England and Italy. That more than half of your children have cassette tape recorders—a system developed in the Netherlands—and we are all using cross bar exchange systems for telephone switching centers which were developed in Sweden, and are made right here, producing thousands and thousands of jobs.

As the facts I have mentioned become better known, it may be that we can develop more agreement on their interpretation which in turn could lead to more agreement on the best course for the United States. Let me again say that I believe these hearings are an important step in that direction and I would like the record to show that I do not think it is necessary for advocacy to breed antagonism; quite the opposite. To this end, I think now is a good time to begin to explore ideas on which there is agreement in principle with an eye toward how the areas of agreement might be expanded.

The AFL–CIO brochure I mentioned is entitled, "Needed: A Constructive Trade Policy." Its stated thesis is that "a constructive foreign trade policy can achieve an equitable balance between our domestic and international interests, as well as permit the United States to move in concert with the rest of the world toward the ideals of expanding world trade."

I most heartily agree. At no time in our history has it been so vital to our economy to expand our trade, to earn more from exports. To examine only one need that cries out for more overseas earnings, it might be well to consider what so many people are calling our energy crisis.

We are a large importer of energy, mostly in the form of petroleum. I have not seen any calculations on the relationship of energy supplies to employment but it is certainly a matter for serious consideration. As you know, an increasing amount of the energy we use will be imported from Middle Eastern countries. We cannot expect these countries to buy as much from us as we do from them, so the question arises, "How rae we to obtain the foreign earnings to pay for our essential energy imports and to achieve some degree of balance in our international payments?"

Looking at our various balance of payments accounts, it is clear that overseas expenditures for such government programs as foreign aid, NATO and other security arrangements are, by their nature, deficit accounts in our balance of payments.

Our tourist account is also a deficit account. Last year, American tourists spent over $2 billion more abroad than foreign tourists did here. In light of income disparities, this is likely to continue. A transoceanic trip is always going to be a big expense no matter what exchange rates are, and it is going to be a long time before as many foreigners as Americans will decide they can afford such a trip.

This leaves our trade and investment accounts. Currently the trade account is in deficit. The only surplus account in our current balance of payments is that deriving from private foreign direct investment. In 1971 this amounted to about $4 billion. $9.5 billion was returned on U.S. foreign direct investment in the form of repatriated profits, royalties and other earnings. Outflows for foreign direct investment totalled $4.8 billion. And $.8 billion of financial outflow were associated with remittances abroad derived from foreign direct investments in the United States.

Unless something goes wrong this surplus will grow. One can only envision a disastrous tilt in our balance of payments should legislative measures restricting investment be enacted. The damage would occur partly because the returns from foreign investment would be cut back and also because the companies engaged in foreign investment would be hurt, some seriously hurt, and this in turn would affect their ability to compete in export markets as well as in our own market with respect to imports.

In this connection let me recall the $7.6 billion trace surplus ascribed by the Department of Commerce to the multinational companies it surveyed. The companies covered by the ECAT survey increased their exports from $4.3 billion in 1960 to $12.2 billion in 1970, a gain of $7.9 billion.

These findings make a strong case for the view that companies with substantial overseas operations are waging a hard fight and a successful one to keep exports flowing from the United States. In light of these facts, I think everyone would agree that these companies should be helped in their international operations and not hurt.

In the merchandise sector of our balance of payments, we are saddled with a vexatious deficit. This deficit could grow worse and worse each year if we continue to import increasing amounts of petroleum and fail to greatly increase our exports.

On the matter of merchandise trade, I would like to see Americans thinking more positively. We are not a nation without resources and we still have great competitive advantages.

Americans are the most highly educated and trained people in the world. It is easy to forget this but it confers a tremendous advantage on us when it comes to the creation, production, and utilization of high technology products. Such products are constantly emerging. A well-known example is the tiny "chip" that has put America back in the production of many miniaturized electronic products such as small calculators and mini-computers and even the Pulsar watch with its built-in computer.

The efficiency of American farms is one of our greatest national achievements. If agriculture protectionism were not such a political issue in all nations with resultant barriers to international trade in farm products, American farm production and exports would be contributing far more to our balance of trade than they do today and which they might well do in the future.

On the matter of efficiency, let me say that from my discussions with economic officials of the Soviet Union and other Eastern European countries, I have no doubt that the American technological reputation is undiminished in that highly observant part of the world. The Soviets believe in our technology and in our managerial ability and we can look to more trade with them.

It is not enough to accept the fact that Americans are still tough competitors in world markets. We must also dismiss the idea that these markets are not available to us. You are going to hear witnesses say that other countries keep out American exports, so we should do the same. I do not think that approach is good enough. First of all, it is misleading. Of course, there are restrictions. They exist both abroad and here, but we are still very much in world markets.

The third negative notion that I resist is that the American merchandise cannot be improved by international negotiations. It seems to me that, the record of the past year and a half shows just the opposite. The going has not been easy. The Smithsonian realinement of exchange rates did not bring a turnaround in the U.S. trade balance; quite the opposite. What it did do was to open the way for a new and more realistic relationship between the American dollar and other currencies. This is still being worked out. It is being worked out partly in the context of the American proposals put forward by Secretary Shultz for a much greater degree of international economic cooperation than the world has known before. Hopefully, its benefits will show up in our trade balance in the near future.

Let us reject outright the notions that American products cannot compete in world markets or that our trading partners will not accept American goods or that negotiations on trade and monetary policies will not work.

I think we are on the right course internationally. I think we should protect our multinational companies and their international investments. Any proposal to disadvantage these companies versus their foreign competitors should be measured against the facts that are now available. On the trade front, we must continue to negotiate for fair and realistic conditions in the context of a new system of international economic and monetary cooperation.

The final point in your "outline" deals with alternatives to restrictions on trade and investment. I think the alternatives of protecting our international investments and improving our trade position are in line with the American international economic initiatives this month. I would like to end by stating my hope that Americans can also find agreement on dealing with the domestic consequences of international trade.

It troubles me to find some representatives of both business and labor despairing of ever finding an effective means for helping those who are injured by import competition. Fortunately, the chairman of this subcommittee is not among them. I strongly commend your positive approach even though I have not studied your bill in detail. As you know, the record shows that the amount of import-induced injury is small compared to the dislocations caused by ups and downs in the economy. I personally believe that the United States must move toward a national program of industral adaptation that enables a worker displaced for any reason to retain pension, seniority and other rights while acquiring new skills for new work. Meanwhile, it should not be beyond our competence to provide special treatment for those affected by imports.

To deny this and to adopt restrictions that would eliminate import competition and invite retaliation and trade war would be to accept the absurdity of injuring the many for the alleged benefit of the few.

Gentlemen, the world has undergone swift changes in the past few years. I believe these have mostly been for the good. As a result, the world today is a more peaceful and safer place. Expanding trade and investment can help us hold these gains and can help the people of the world enjoy a bit more prosperity. But the first need. I believe, is for Americans to agree among themselves on the proper course to follow.

I thank you for your efforts toward that end.

Senator Ribicoff. Thank you, Mr. Kendall. for your provocative statement.

Now, I believe your company has negotiated a deal with the Soviet Union whereby you will be selling Pepsi Cola with U.S.S.R. and you will be the exclusive agent in the United States for Russian vodka. Is that the basic deal?

Mr. Kendall. Yes, sir.

Senator Ribicoff. How much business do you actually see going on between the Soviet Union and the United States? Is this just a one-shot operation or do you see substantial business relations between the United States and the Soviet Union?

Mr. KENDALL. Mr. Chairman, if you look at the whole trade picture and see where opportunities are, as I said in my talk, I think we are going to have difficulty in improving our foreign trade balance. We are going to continue a deficit on tourism. One hopeful area in our balance of payments has to do with our direct foreign investment and another hopeful area has to do with improving our merchandising account.

The greatest opportunities I think that we have got to improve the merchandise account side of our trade is in the Eastern European countries. We have the things that these people need in Eastern Europe. Eastern Europeans have done an excellent job, particularly in the Soviet Union, of educating their people. As people get educated they have desires for better and better things, and the consumers in the Soviet Union as well as other Eastern European countries have reached that point, and they are crying for the type of things we have here. They are a natural market for us. And I think that one of the greatest things that has happened in providing an opportunity for increased trade from this country is what President Nixon has done in bringing about the new relationship between the Soviet Union and the United States. I think the hope for trade is unlimited.

Senator RIBICOFF. Well, of course, there is a limit as to how much Russian vodka the American people can consume. Once we get off vodka, what are the Russians going to pay for our products with? What type of merchandise are they going to send us?

Mr. KENDALL. Well, Mr. Chairman, there are things other than vodka and wine and champagne and caviar and that type of thing in the Soviet Union. But I think they have great natural resources which we are going to need. For example, in energy. I think that there are great opportunities, particularly in the gas field. There are opportunities in copper in the Soviet Union. On the other side of the ledger there are such things as toys. They manufacture bicycles. There are other consumer items which if they decide to change their 5-year plan and produce for exports for third countries—which they can do. To date they have not produced for external consumption, they only produce for internal consumption.

Senator RIBICOFF. If they send us bicycles, then of course, whoever we have left in bicycle manufacturing will go out of business.

Mr. KENDALL. Well, we are presently getting our bicycles from other sources.

Senator RIBICOFF. Do you believe it is a good policy for the United States to invest substantial sums of money in gas facilities and oil refineries in the Soviet Union, giving them control over the energy sources that we need in this Nation?

Mr. KENDALL. Mr. Chairman, on the energy crisis, we obviously have to do something because we have a problem. I do not happen to be one that believes the statistics that have been produced up to 1985 where people say we are going to import in the area of $25 to $30 billion each year. I am reminded that in the 1950's, people were forecasting that by 1982 the world was going to starve because they made straightline projections. I believe things are going to happen in energy. I think we are going to be able to turn something that we are being smothered with, which is garbage, into a fuel. I think there are great possibilities for that. That is happening in St. Louis already, and they are interested in Chicago in turning garbage into fuel.

But in the meantime, we are going to have to have some sort of energy. You ask the question should we rely on them? At the moment we are relying on the Arab nations for oil. In fact, the Japanese have come to the conclusion that perhaps the Soviets would be a more reliable source of energy than the Arab nations.

So I think, yes, we should make agreements with the Soviets on gas.

Senator RIBICOFF. Well, let me ask you this. What does your company do with the liquid assets? I do not mean the stocks of Pepi-Cola that you have abroad. When you generate your income in the sales of Pepsi-Cola, or whatever other products you distribute under the Pepsi-Cola Corp., what do you do then with the funds generated?

Mr. KENDALL. Well, it depends on what markets you have, Mr. Chairman. There are many markets where we bring the money home. There are other markets where we reinvest. It depends on our market share, the state of development of our business and the countries we are operating in. In some countries, you cannot bring it home.

Senator RIBICOFF. Well, give me some examples of what you do with your funds from different countries. I am curious about how this works.

Mr. KENDALL. Let us take Venezuela. We bring it home. Brazil, we reinvest. Turkey, we are not allowed to. Spain, we can bring part of it home. The Philippines, we have to work out various transactions to get it home. You have to work switch deals. Australia, you bring it home. Germany, you bring it home. England, you bring it home.

Senator RIBICOFF. In the countries where you cannot bring it home, what type of investments would Pepsi-Cola make?

Mr. KENDALL. Well, in Turkey, for example, we are trying to develop that market and it is impossible to get foreign exchange because of their own economic problems. We have, accordingly, invested in the glass business. We hope that eventually the economic situation in Turkey will turn around and that we will have a very prosperous market. We are making a lot of money locally but it does not help our shareholders now, but we hope some day that will not be the case.

Senator RIBICOFF. Where do you think the speculation in the American dollar is coming from?

Mr. KENDALL. I do not know that I would use the word speculation, Mr. Chairman. I think the monetary system is much like the stock market. People say, well, you are speculating but somehow the market has a way of finding out the value of a stock and the market also has a way of finding out the value of a currency, and I think that the American dollar was overvalued because of the inflationary period that we went through which is fortunately under control.

Senator RIBICOFF. Would you give us a list of foreign governments in Europe which restrict the free reputation of income from subsidiaries of the United States? Do you have a list——

Mr. KENDALL. There are only two of them.

Senator RIBICOFF. Which countries restrict it?

Mr. KENDALL. Spain and Turkey.

Senator RIBICOFF. Spain does not allow the American——

Mr. KENDALL. Yes; they do, but it is limited. It is a percentage of your capital investment. And Turkey is total. You cannot bring any dividends out.

Senator RIBICOFF. Do you foresee any elements in the common industrial policy of the European Community which would restrict the earnings and the repatriation of American corporations in the European Community? Do you see any prospects of that in your experience?

Mr. KENDALL. Not under the present law but if you start changing the rules and regulations under which we operate here, that could change, but under present operating procedures, no.

Senator RIBICOFF. In 1960 we had a favorable trade in manufactured goods of $5.2 billion and in 1972 it went down to minus $7.1. This is from a pamphlet prepared by our staff.

How do you account for the marked deterioration in the export of manufactured goods in that period of time?

Mr. KENDALL. I have not seen your study, Mr. Chairman, but you had several things happen in this country that brought that about. You had inflation in the United States—now, you can look at any of the charts and you can see inflation take off almost vertically in 1967 where inflation set in because we had a policy for a period before that and during that period where we had all the valves open and we had Vietnam going at the same time.

Any time you have inflation in this country at higher rates than you have in other countries such as Japan, with a stable currency and without inflation, it is a question of time until you are going to bring about problems in trade. This is still the biggest consumer goods market in the world.

Senator RIBICOFF. I think, though, that rates of increase of wage costs and inflation have been higher in recent years in both Germany and Japan than they have in the United States; have they not?

Mr. KENDALL. Mr. Chairman, a lot of people make that comparison but that is like comparing our GNP with Japan. When you look at the actual hourly costs of labor in Germany or Japan, our increase—we start on such a high base that even with the percentage increases they are getting it is going to be a long time before they catch up to our costs.

Senator RIBICOFF. You say that——

Mr. KENDALL. But I do not think labor is the big factor, in our problem. I know a lot of business people say that. Labor is a factor to a certain extent but I do not think that is the big problem. Our big problem has been inflation.

Senator RIBICOFF. Do you see us coming to the end of an expansionary phase of foreign investment, especially in Europe, now that so many American companies are established there and because of devaluation of the dollar not buying as much? Do you think that we are leveling off or in American investments abroad, with less American money going abroad?

Mr. KENDALL. Well, I do not think that it can continue at the same rate, Mr. Chairman, because the opportunities are not as great today as they were during that period where we were the only people in the world that really had the capital to invest. You have got a lot of other people with capital and you are going to have competition for those opportunities.

Senator RIBICOFF. Suppose American companies had not been established abroad. Do you think we really would have lost a lot of export busines that now these companies supply from their European plants? Do you think we would have lost that business?

Mr. KENDALL. I do not think I know.

Senator RIBICOFF. Is it, because many foreign countries have excluded American goods directly or indirectly, that our big multinational corporations have had to establish plants abroad to get a better break?

Mr. KENDALL. Mr. Chairman, there are always exceptions but I know of no major multinational company that goes abroad to make investments because of low labor rates or because of tax advantages. They go abroad to make an investment to get a higher market share.

Now, in some cases you have to be in that market in order to get the higher market share because your costs, your shipping cost can be the difference. There might also be restrictions which, of course, force you to open up in that market.

For example, our particular business is in the making of concentrate, which is not heavily involved in freight. I would like to see one big plant here in the United States where it was all computerized and run by robots and we did not have to do anything but ship it out, but unfortunately we can not do that. There are many, many countries that we operate in overseas where we just would not be there if we had no plants.

Senator RIBICOFF. You say you know of no American company that has gone abroad because of the differential in wage rates.

Mr. KENDALL. I stated that there are always exceptions. I am talking about the majority of manufacturing. In the electronic field, radio and television, and textiles, there are some companies along the border in Mexico but I do not think you could make a case that that is true for the majority of the multinational companies.

Senator RIBICOFF. How about shoes?

Mr. KENDALL. How about what?

Senator RIBICOFF. Shoes.

Mr. KENDALL. Shoes.

Senator RIBICOFF. Yes.

Mr. KENDALL. I do not know of any U.S. company that has done that but there probably have. I know one of our biggest problems in shoes is other people shipping in here, not American companies going abroad, but I can be wrong in that. I do not know.

Senator RIBICOFF. I can take as an example a company in Hartford, Conn., Royal Typewriter Litton Industries acquired Royal Typewriter Co. Litton also had a typewriter company in Hull, England. The average hourly rate in Hull, England, was $1.20 an hour while the average hourly wage rate in Hartford was $3.60 an hour. I am told 55 percent of the cost of making a typewriter is direct labor cost. So Litton moved its production of typewriters from Hartford to Hull, England, and 1,700 people lost their jobs.

Mr. KENDALL. I am familiar with that case.

Senator RIBICOFF. Would you say that was directly attributable——

Mr. KENDALL. I am familiar with that case and I know your position on it.

Senator RIBICOFF. I would say the only reason they moved to Hull, England, was the differential of labor cost.

Mr. KENDALL. As I said when I started out, Mr. Chairman, you can always make exceptions and I think you are now discussing one of them. I do not think those are the majority of the companies. I do not think you would be right in changing the rules under which we are operating for those exceptions. I think you have to look at the majority.

Senator RIBICOFF. The problem you have, is that you can call this an exception but to the people of Hartford, Conn., it is not an exception, it is a tragedy.

Now, I do not know if Senator Fannin has something like that in Arizona or Senator Packwood in Oregon, but——

Mr. KENDALL. I am more familiar with yours since I live in Greenwich.

Senator RIBICOFF. I see. But that is a problem we are going to have to face with Mr. Woodcock and Mr. Meany testifying here. I am sure they will have other examples.

Mr. KENDALL. I am sure they will.

Senator RIBICOFF. But this is also a problem that this Committee has to control with. We worry not only about the overall economy of this country but also about the problems that we have back home.

I am sorry, I see Senator Bennett is here. I thought it was Senator Fannin.

Senator BENNETT. I am sitting in for him.

Senator RIBICOFF. Thank you very much, Mr. Kendall.

Senator Bennett.

Senator BENNETT. Since I am not a member of the subcommittee and Senator Packwood is, I would like to give him a chance.

Senator PACKWOOD. I am curious, Mr. Kendall. I did not understand your answer about Turkey. You can take none of your profits out of the country?

Mr. KENDALL. No.

Senator PACKWOOD. Are you just investing there in the hope that one of these days you will be allowed to take them out?

Mr. KENDALL. Yes, we have done that—in Brazil, for example, we had the same problem in Brazil. In fact, we still have the same problem in Brazil. There were many problems that we had originally. In the Philippines when we originally went there it was a tremendous problem, but it has been one of our most profitable operations.

Senator PACKWOOD. Profitable there or in the sense of bringing income back here?

Mr. KENDALL. One of our most profitable to our shareholders, which means back here.

Senator PACKWOOD. For the moment you just collect your profits in Turkey and invest in glass.

Mr. KENDALL. Or expand the market, which we are in the process of doing and we can also eventually hope to get some of the profits out through the sale of glass to third countries.

Senator PACKWOOD. Run that by me again. You are going to sell the glass from Turkey to third countries but your profits are still in Turkey.

Mr. KENDALL. No. We take the glass out of the plants that we have got an investment in in Turkey and sell it to a third country for hard currency and we get the hard currency; Turkey does not.

Senator PACKWOOD. I see. Very good.

Mr. KENDALL. It is the same way that we work with barter. Multinational companies are going to have to get more and more involved in barter, particularly in underdeveloped countries, and particularly in Eastern Europe. We are in Hungary where part of our arrangement is in barter. The arrangements we have with the Soviet Union in effect is barter. We are getting dollars for our concentrate but we are giving them dollars for the vodka but it really is a swap of one for the other. And we will make a profit on both of them.

Senator PACKWOOD. I think you and I see eye to eye in almost all of these matters. I have read several of your speeches and your article in U.S. News, first rate, and I am delighted to have you here.

Mr. KENDALL. Thank you.

Senator PACKWOOD. I have no further questions.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. You have mentioned, and we are all very painfully aware of the problems created by a potential energy shortage and the fact that we may have to depend on foreign countries, Near East or Russia, for our energy. Do you have any idea of the type of exports that we can increase to pay in part for that necessary increase in imported energy?

Mr. KENDALL. Senator Bennett, I am certainly glad you raised that question. This is going to be a long answer but I think it is important that the committee understand this.

This country has not been an export-minded Nation. We started out after the war with the Marshall plan which was a very good thing because we could afford it and it helped Europe to get back on its feet. But we developed a "give-away" attitude in this country—what I call the Marshall plan attitude—and in many of our trade discussions foreign policy was the primary motivator of those trade discussions, not our own economic requirements.

We have got to get over the Marshall plan era and get into creating foreign policy that fits our own economic needs, the same as England has been trying to do. We have got to have people in our embassies overseas—which the State Department is beginning to do—looking for opportunities for U.S. companies; to notify companies over here that there are opportunities in those countries when contracts, government contracts come up or local private contracts come up; to notify them the same as the British do, the same as the Japanese do. We have got to start a program which Ambassador Ingersoll has recommended and which is now starting, like the National Alliance of Businessmen, only in the export field, to get organizations set up around this country like the Japanese do in Japan and get our smaller companies to realize the opportunities that they have got abroad, because most small companies sell only the area in which they are operating. They do not go overseas.

I remember during the textile hassle that I asked one of the leading manufacturers of textiles why he did not go abroad and look for opportunities to sell his goods. His reply to me was that it is very difficult. He said that in some of the countries you have to get a visa to go, and it is very difficult to travel, and you have to put up with all the foreign conditions.

For such reasons as that, many U.S. firms do not believe in exports. We have got to get them to believe in exports the same as the Japanese do, and if we do that in this country and get our people exportminded and go out like the Japanese have and go out after the business, we have got all the opportunities in the world, and we will have no problem in meeting our requirements for energy or anything else.

Senator BENNETT. You will admit, however, that there are certain areas where the opportunity is greater because the competition on the other end may not be as strong.

Mr. KENDALL. Well, of course, there are. There are opportunities in any field. There are some things that we can compete in; some we cannot. There are some things the Japanese can do better than we can. I think their strawberries are better than our strawberries, but I like our rice better than I do the Japanese rice.

What we have got to do is pick those areas in which we can compete and then make sure that we go out and compete. As Senator Ribicoff has suggested in his adjustment assistance bill, there are people who get displaced, we have got to find a way to take care of them and get them retrained for other industries. But we have got to go after the business that we know how to get best.

Senator BENNETT. I have no other questions.

Senator RIBICOFF. We have very tough problems here. My feeling is I am not anxious to push Mr. Flanigan and the administration to come up with a quick trade bill. I do not know how Senator Bennett feels, but I think the problems are so complex that I would rather see them take a little more time instead of meeting a deadline. For example, the small American businessman is going to find it very difficult to be export-minded. On the other hand, there is a close identity of interest between Japanese business and the Japanese Government. I think our Government has to become more export-minded and work with smaller businesses to get them oriented to find export opportunities.

I think you can put your finger on the fact that after 1945, geopolitics was the prime concern of American foreign policy, while ecopolitics dominated the policies of our trading partners, certainly Japan and Germany. Now we are waking up to realize that geopolitics is not as important as it once was. Ecopolitics, what happens to the dollar and to our trade, is becoming the dominant factor today in the world.

But we are fragmented organizationally. You have jurisdiction over trade in the White House, in State, in Treasury, in Agriculture, in Commerce. It is all over the lot. There is a lack of coordination of trade and monetary policy. The complexity of the problem is enormous. We have such a long way to go when you consider our $7 billion trade deficit and $10 billion payments deficit.

I do not think it is going to be easy to turn these figures around. As a businessman you must realize how staggering it is to turn this picture around. This country has a long way to go.

The President has to have a considerable amount of authority to negotiate in the trade field. But in the Senate and in the Finance Committee, we have been burned in the past. Mention was made of the Canadian-American automobile agreement which some of us, especially Senator Talmadge and myself, fought when it first came up. We predicted the disaster it would be to the American automotive industry. And last year we had a \$2½ billion trade deficit with the Canadians.

We have a problem of making sure that in the foreign economic field, we have the equivalent of the Kissingers in the geopolitical field.

Now, Henry Kissinger is an expert on geopolitics, but I think he would be the first one to admit that he is not an expert in ecopolitics. I do not know whether we have any experts in ecopolitics.

Someone has to have overall authority in this field. The President is going to have to designate someone with the authority to be sort of an international economic overseer.

It is a very tough problem. Protectionism and free trade today are meaningless words. I do not think there is any country which is completely protectionist or completely free trade. Nations usually look out for themselves, and enlightened self-interest is the motivating factor for doing business with one another, whether you are a businessman or a group of nations.

I know of your great interest in this field, Mr. Kendall, and appreciate your coming. We could ask you other questions, but you heard the bell, and there is a vote on now. Our thanks and gratitude to you, and I hope we can consult with you in the future.

In the meantime, the committee will stand adjourned, until 10 o'clock tomorrow morning.

(Whereupon, at 3:05 p.m., the subcommittee was adjourned, to reconvene at 10 a.m., Tuesday, February 27, 1973.)

MULTINATIONAL CORPORATIONS

TUESDAY, FEBRUARY 27, 1973

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator Abraham Ribicoff (chairman) presiding.

Present: Senators Ribicoff, Fannin, Hansen, and Packwood.

Also present: Senators Hartke, Bennett, and Roth.

Senator RIBICOFF. The committee will be in order. Our witness today is Mr. Thomas Murphy, vice chairman of the board of General Motors.

Mr. Murphy, you are competing as far as this committee is concerned today with a coffee being given for Democratic Governors who are here for the Governors' Conference.

There is an important meeting of the Agriculture Committee today, and three members are members of the Agriculture Committee, so I am delighted to have our ranking member, Mr. Bennett, here. If you will proceed, there may be some more members will come in the course of your testimony.

Senator BENNETT. May I say, Mr. Chairman, Arthur Burns and Paul Volcker are talking to the Banking Committee about the devaluation at this moment. I may have to leave.

STATEMENT OF THOMAS A. MURPHY, VICE CHAIRMAN, GENERAL MOTORS CORP.

Mr. MURPHY. Mr. Chairman, thank you. My name is Thomas A. Murphy and I am vice chairman of General Motors Corp. We think the interest displayed by your committee in taking a careful and objective look at the multinational corporation is highly commendable and we are pleased to be able to participate in your endeavor.

I have a rather lengthy statement which I propose to file for the record.

Senator RIBICOFF. Without objection the entire statement will go into the record*

Mr. MURPHY. Also, I have a much shorter version summarizing the more important points which, with your permission, Mr. Chairman, I propose to go over with you this morning.

Senator RIBICOFF. It is certainly proper and you may proceed accordingly.

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*See p. 162.

Mr. MURPHY. It is our conviction, based on over 60 years of active participation in the world market, that the reduction of barriers to world trade and investment is essential to raising living standards and employment both at home and overseas. Moreover, we are convinced that the operations of multinational business forms have made and can continue to make a significant contribution to the realization of these goals.

In response to your inquiry, we have organized our statement under three broad hearings. First, I shall touch on the key factors in the evolution of the multinational automotive industry. This background is essential to understanding the forces which have shaped our growth.

Second, I shall review General Motors record in the United States, Canada and overseas in terms of employment, trade, investment and balance of payments.

Third, I shall respond to the questions the chairman has identified as being of special interest to the subcommittee.

The world automobile market is today served largely by multinational concerns. Some of these, such as General Motors, are based in the United States. Others are based in France, Germany, Italy, Sweden, the United Kingdom and, more recently, Japan. All are large, well-staffed and efficient producers. As a result, competitive pressures have increased and are continuing to increase.

In the early history of the industry, U.S. manufacturers, relying on mass production methods, took a commanding lead and served the world market by exporting fully assembled cars and trucks made in the United States. Shipping fully assembled cars was costly. Faced with rising competition from European producers and tariffs, U.S. manufacturers began to ship automotive components for assembly overseas.

For example, in 1928, General Motors could ship nine unassembled Chevrolets to Europe for assembly at about the same shipping costs as two fully-assembled cars. During the period from 1923 to 1928, General Motors established 19 assembly plants in 15 overseas countries. By 1929, about 70 percent of our exports were being shipped to these plants for overseas assembly.

Thus, the origin of General Motors as a multinational manufacturer can be traced back to the competitive necessity to establish overseas assembly facilities in order to maintain an export business. It became quickly apparent, however, that General Motors could not rely solely on the export-overseas assembly approach and remain a strong competitive factor in the overseas markets. These were years of very rapid change. Consumer preference in the United States was for larger cars, while in Europe the demand was for smaller cars. In addition, European manufacturers were adopting U.S.-developed mass production methods.

As a result, General Motors took its first tentative steps to manufacture components in Europe and to assemble cars designed to meet European needs through the acquisition of two overseas manufacturing facilities—one in England, the other in Germany.

Senator RIBICOFF. I wonder if you would identify the brand name of the English car and German car.

Mr. MURPHY. Vauxhall is the brand in England and Opel is our brand name in Germany.

It was only shortly after this that we were plunged into the worldwide depression of the thirties with consequences that had a lasting effect on all companies serving the international market. The effect of the Depression on trade was compounded by the effort of nations around the world to protect jobs at home by adopting protectionist policies. The Smoot-Hawley tariffs were typical. The results, as we now recognize, were catastrophic. North American vehicle exports dropped from 648,000 in 1929 to 83,000 in 1932. As we were to learn, markets once lost are difficult to recover. Vehicle exports from North America never again reached the 1929 peak.

Two major developments following the Second World War further accelerated the trend toward overseas production rather than U.S. exports. One was the creation of large trade groups such as the European Economic Community and the European Free Trade Association. The other was the determined emphasis of the developing nations on accelerated domestic industrialization.

In General Motors view, the emergence of broad-based European trade groups was a significant step toward free trade. Nevertheless, with a high common external tariff and the planned removal of internal tariffs, there was only one course left open for producers outside these market areas in order to continue to serve them—invest directly in manufacturing capacity within the newly formed market areas.

In the developing areas, the creation of a domestic motor vehicle industry has been a major and understandable national goal. Typically, so-called local-content regulations have been adopted which establish time schedules for substituting local production for component imports. For example, the local-content requirement in the manufacture of passenger cars in Mexico is now 60 percent, in South Africa 55 percent, in Brazil the requirement is now 100 percent, and in Argentina 95 percent.

The choice facing each manufacturer is a simple one: to comply with the local-content requirements or to withdraw. To withdraw would, of course, mean a loss of sales opportunity, a loss of those exports permitted under the local-consent regulations and a loss of plant equipment exports from the United States. Faced with a succession of national local-content requirements, General Motors in some cases has reached a decision, based on its analysis of the market opportunity, to withdraw and in others to participate.

General Motors experience underscores three fundamental conclusions. First, our decisions have not involved a choice between exporting from the United States or manufacturing abroad. Differences in customer product requirements and preferences, trade barriers—both tariff and nontariff—reflecting deep-rooted national policies, and logistics have generally foreclosed the expect opportunity.

Second, General Motors overseas investments have been dictated by market opportunity, not by the availability of hourly labor costs lower than those in the United States. It has been and is today very clear that we could in the absence of barriers, serve the vehicle needs of many developing countries by exporting high-volume cars and trucks manufactured in the United States at a lower unit cost than we can manufacture on a low-volume basis locally.

Third, there is no question that if General Motors or other U.S. automotive firms were to turn their backs on market participation through overseas facilities, multinational firms based in other countries would be alert and quick to fill the need. Even in those countries where GM is represented, the competition from foreign-based multinational firms is intense. Volkswagen, a multinational manufacturer, is the leading producer in both Brazil and Mexico. Fiat, also a multinational manufacture and the sales leader in the overseas market, is in first place in Argentina. The Japanese firms with multinational operations are the leaders in Asia.

Trends in automotive trade with Canada since 1965 have been largely shaped by the Automotive Products Trade Act. In our statement for the record and an attachment thereto, we have reviewed in detail developments in United States-Canadian automotive trade since passage of the act. My comments are, at most, a very brief synopsis of this record.

At the time this act was being considered by the Congress, General Motors made it clear that it was prepared to do whatever the two governments decided to be in the best interest of the United States and Canada. We did not initiate or urge adoption of this agreement. In testimony before the Senate Finance Committee in 1965, Mr. James Roche, then executive vice president of General Motors, summarized our view as follows:

> It is the belief of General Motors that the Automotive Products Agreement, while not free of difficulties, is over a period of time a workable plan. It was worked out by representatives of the two governments and freely entered into on both sides.

The total value of automotive trade between the United States and Canada in 1972 was more than 12 times the level of 1964. After several years of decline in the U.S. balance of automotive trade with Canada the trend was reversed. Preliminary results for 1972 indicate a favorable U.S. balance in excess of $100 million.

Moreover, automotive employment in both countries has continued to rise. While the rate of increase of Canadian automotive employment since 1964 has been higher than that in the United States, the number of employes added to U.S. automotive payrolls since 1964 is almost five times the number added to Canadian automotive payrolls.

General Motors will continue to make every effort to live up to the letter and spirit of whatever production requirements the United States and Canadian Governments determine to be in the best interests of the two countries. To meet the requirements of the current agreement has required substantial additional capital investments on both sides of the border. If, as has been suggested, the agreement were canceled, it would result in a considerable cost to manufacturers who would have to "undo" the production adjustments already made.

Turning now to some specific issues identified in the chairman's "informal outline," I would like first to underscore the fact that General Motors multinational operations have helped us to realize the export potential for U.S. vehicles and the employment opportunity related to it. Because we manufacture cars in volume overseas to serve overseas needs we have a worldwide distribution system available. This system can and does sell and service the limited demand for U.S. cars. Without it, there would be virtually no U.S. export sales.

Second, General Motors cumulative export trade surplus from 1946 through 1972 is $12 billion. The net inflow on our capital account has been $2 billion—a total balance-of-payments contribution of $14 billion. In 1972, General Motors net contribution was $400 million.

Third, General Motors expenditures on plant and equipment since 1960 have totaled $11.7 billion of which $9.2 billion was invested in the United States. General Motors is investing in the United States to serve United States and overseas customers whenever and wherever there is a commercially viable opportunity.

Fourth, in 1972 the average number of GM employees in the United States was in excess of 550,000—20 percent above the number of such employees in 1960. This growth in our U.S. employment compares favorably with the growth of total employment in the manufacturing sector of the U.S. economy which rose only 12 percent.

We seek, however, to do more than simply expand the number of jobs. We want them to be good jobs. The average annual income of GM U.S. hourly employes is about $12,500. With supplementary benefits, this becomes about $16,000.

By contrast, in Germany hourly wage rates, including supplementary benefits, are 35 percent below those in the United States; Japanese rates are 63 percent below the United States.

As our investment record indicates, we seek to grow in the United States and, with this, to serve our customers better, expand our employment and continue to earn the confidence of the owners of the business.

General Motors programs to meet import competition with domestically produced small cars began in 1959 and have continued through the introduction of the Vega in 1970. The cars introduced over this period have made a strong competitive bid. Almost 350,000 Vega cars were sold in the United States in 1972 in spite of the well-publicized labor difficulties at our Lordstown plant. Other U.S. manufacturers have also responded successfully to the import challenge. In 1972, U.S.-produced small cars accounted for about 2.4 million units, compared with total small car imports of 1.4 million units. General Motors' objective has been to build cars in the United States for our customers here and to meet the overseas competition imported here without trade barriers.

Mr. Chairman, contrary to the endless stream of charges critics have hurled at multinational business firms, I am convinced that they have been a powerful force for progress. I am equally convinced that they can be an ever more useful instrument for improving living standards in the years ahead. In 1966, Frederic Donner, then General Motors chairman, concluded his McKinsey lectures at Columbia University with a paragraph which, I believe, summarizes our view very well:

> In short, the world-wide enterprise is potentially a most effective element in a world-wide desire for economic growth. Used well in an environment of freedom, it offers a potential unlimited today and in the years ahead. It provides an important element in the search for world peace. These are the objectives which constitute the ultimate challenge and the promise of world-wide industrial enterprise.

In our statement submitted for the record, we have dealt at length with the specific questions included in your informal outline. These are forward-looking questions of immense importance to the United States and to the world economy.

In this summary, I would like to comment on one specific question, that dealing with S. 151, the proposed Foreign Trade and Investment Act.

Consistent with our view that the thrust of our national economic policy should be toward the expansion of world trade and investment, we believe that proposals, such as those contained in S. 151 which would impose tax penalties on the earnings from overseas investment and extend the quota concept, would not achieve this goal. There is abundant history to support the conclusion that restrictive policies at home invite retaliation overseas.

In evaluating the proposals contained in S. 151, it most be emphasized that the capital account is the one account in our balance of payments that has consistently returned a surplus. Whatever short-term gain we as a Nation might obtain from penalty taxes on overseas earnings will, I am convinced, be far outweighed in the long run, by their adverse impact on overseas investment.

The expansion of overseas investment need not require an outflow of dollars. General Motors has relied on overseas capital markets to augment earnings retained for investment overseas. This has been our standard business practice for the past 25 years. It has also been our policy to remit overseas earnings promptly, retaining overseas only those resources necessary for maintaining and expanding the subsidiary as an effective competitor. These practices were adopted to avoid the speculative risks of fluctuating exchange rates.

We are aware of the many allegations about the role of multinational firms in precipitating the recent world monetary crisis. Let me state unequivocally and in the strongest possible terms that General Motors has not and will not speculate in the world money markets. As a long-term member of General Motors financial staff and as a senior officer, I know from personal experience that this policy has been scrupulously observed. We are a manufacturer, not a speculator.

Mr. Chairman, in your invitation to General Motors you asked for recommendations as to what might be done about U.S. trade problems. In this summary, I have tried to focus on what I believe should be the basic thrust of our international policy and the imperatives for our domestic policy. We hope that we have been responsive to your request and would like to offer comments on six points for your consideration. They are:

1. RECIPROCAL TARIFF AND NONTARIFF BARRIER REDUCTIONS

The forthcoming GATT negotiations will provide a new opportunity for reciprocal reductions in tariff and nontariff barriers. The success of this new round is critically important for two reasons. Success is essential to offset the groundswell of protectionism in many parts of the world—including the United States. Also, success is essential to opening up the competitive opportunity for U.S. exports. Progress has been made. We must not lose these gains—but rather build on the advances already achieved.

2. INTERNATIONAL MONETARY ADJUSTMENTS

The need for new international monetary mechanisms is widely recognized. In fact, past parity rates of exchange have imposed a competitive handicap on the sale of U.S.-produced products in the export market. Also, they gave imported cars an advantage in the U.S. market. Almost 86 percent of the overseas cars imported into the United States come from Germany and Japan where the largest exchange rate adjustments have been made. Thus, the impact on the domestic industry has been substantial. The Smithsonian Agreement exchange rate adjustments 14 months ago contributed in 1972 to the first decline in the import car share of total U.S. passenger car sales in the past 10 years.

The second dollar devaluation in February, floating the Japanese yen, and revaluation of the German mark will result in vehicle price relationships that may better reflect underlying economic realities. Also, we hope that the Group of 20 can establish mechanisms to permit more timely and orderly adjustment of exchange rates in the future.

3. IMPROVED PRODUCTIVITY IN THE UNITED STATES

As important as trade and investment policy and monetary reform are, there must also be a renewed dedication in the United States to improving productivity. Ultimately, this is the key to meeting both foreign competition and improved productivity overseas.

We share the hopes expressed by the President when he established the Productivity Commission. There is a great potential for improvement. General Motors, for example, is working hard to find ways to reduce worker absenteeism and improve motivation through improved communication, educational assistance, and work rotation schemes.

We are giving the search for improved quality and greater efficiency a high priority in our programs. Out of these efforts come better products, improved materials, more efficient machinery and improved processes.

Along with improved productivity goes increasing employment and rising living standards.

4. FAVORABLE INVESTMENT CLIMATE

All of these efforts require large investments. General Motors expenditures for plant and equipment in the United States have averaged about $850 million annually since 1965. Plans for 1973 will require an increase from this high rate of expenditures.

A favorable investment climate helps achieve a high rate of productivity advance. Thus, there is a role for tax policy to play. Specifically, the accelerated depreciation provisions and the investment tax credit should be retained as permanent features of our tax law—rather than on-again-off-again proposals which make long-term planning of business investment more difficult.

5. EMPHASIS ON U.S. EXPORTS

There is need for greater emphasis on the importance of exports to our economy. In one sense, the large American market has been a disadvantage, making export sales to many individual countries seem small by comparison.

More medium and small companies should and could become interested in the world market if they can be made aware of the advantages of sales abroad. In addition to an educational role, the Government has a leadership role to play—and surely not through inward-looking and repressive proposals which can only serve to trigger retaliation abroad.

6. ECONOMIC ADJUSTMENT ASSISTANCE

Finally, General Motors believes that economic adjustment assistance has potential merit as one means of responding to problems of dislocation related to changing world trade.

The proposal offered on the subject in the last Congress by you, Mr. Chairman, was directed toward providing a remedy to some of the problems that are troubling all of us.

We appreciate that there are difficult administrative issues that must be resolved. We believe your proposal deserves serious study.

Mr. Chairman, in concluding this statement I want you to know that I am personally most appreciative of this opportunity to present General Motors views to this subcommittee. The issues you now have under study and the policy proposals adopted are critically important to our Nation and the peaceful and prosperous growth of a truly world economy.

We dare not turn back from a world which is seeking to find solutions to many urgent problems. In meeting this challenge we are convinced that the multinational firm—competitive world enterprise—offers a resource whose value we are only beginning to sense.

Speaking for one multinational firm, General Motors, we hope the policies you adopt will draw forth the best we have to offer.

Thank you very much.

Senator RIBICOFF. Mr. Murphy, before asking you a few questions, I want to commend you, your staff and General Motors for an outstanding presentation. Generally, when we have hearings, trade associations come along and give us generalities, which we appreciate having, but you have taken the time and the research to put together specifics, statistics and explanations from your own experience as a multinational company and the committee appreciates what you have done.

Mr. MURPHY. Thank you, Mr. Chairman.

Senator RIBICOFF. If we are going to understand these problems, it becomes very important that the people who are involved come to the Hill and explain it to us. The problems are complex enough and we have to get beyond generalities to understand them. So will you take my compliments back to the members of your staff, who I can see have spent many hours to pull this all together. Your testimony will be a valuable part of the record not only of this hearing but for economists and everyone else studying the problem of multinational corporations.

Mr. MURPHY. I shall, Mr. Chairman; thank you very much.

Senator RIBICOFF. Mr. Murphy, you state that in the absence of foreign trade barriers that you could serve the vehicle needs of many developing countries with cars made in the United States. What specific barriers are you facing and how big a market could you have without these barriers?

Mr. MURPHY. Well, around the world, in the developing countries, Mr. Chairman, there is a desire on the part of those individual countries to have an automotive manufacturing capability of their own.

Senator RIBICOFF. Is this a symbol of progress, industrial success?

Mr. MURPHY. Yes; they seem to want an automobile factory, a steel plant, cement manufacturing, and a nationally owned airline. Those all seem to be symbols of economic progress. They have, in order to attain those goals, the industrialization that they seek and the jobs that they want for their people, they put in what we call local content requirements. In effect, they say if you are going to have access to those markets you are going to have to have part of the product manufactured in the country. Those are the barriers that we are primarily referring to. If we could supply those markets directly from the United States with our higher volume base here and if they had the demand for our type of vehicles we could successfully penetrate those markets and we could do it on a very economic basis. We recognize they do have their national goals and objectives and for that reason they want to have participation in the manufacturing.

As far as dimensions of the market are concerned, the problem here is a little chicken-and-egg proposition. We feel most of the people in these areas are desirous of owning automobiles and having the convenience and the comfort in the same way that people here in the United States do. The ownership statistics show we have in the United States here one car for about every 2.3 people, I believe it is. In some of these countries overseas it is one for every 200 and one for every 400, which gives you some idea of the dimension. So in these growing countries, developing countries, where population is so great, there would be a great opportunity for growth and we think that growth opportunity is there. It will take jobs, too, so that to that degree they are concerned about getting those jobs. That is why in making the decisions as to whether to abide by the local content and put in the investments required we have to be mindful of that, too.

Senator RIBICOFF. Let me ask you, foreign imports have been making significant inroads even with devaluation. Do you have any projections at what rates foreign imports of automobiles will level off?

Mr. MURPHY. They seem to have leveled off. Actually, the percentage of the market taken by the imports was down in 1972 for the first time in about 10 years.

They are going to be very competitive in the U.S. market because it is a very attractive market to them. They are. I am sure going to double their efforts to be as efficient as possible and come into that market and attract whatever buyers they can here. It would be our hope that that volume would decline but, as I say, they are going to be competitive and I think the U.S. customer is entitled to the selection possibilities that are available by the products brought into this country as well as the products that are made here, if they are all competing on a fair and equitable basis.

Senator RIBICOFF. You indicated in your longer statement that in 1972 you imported some 60,000 Opels into the United States. What actuates a buyer to buy an Opel instead of a Vega. I am sure you have done marketing research on that. What are the factors that makes up that determination?

Mr. MURPHY. We make market studies and we try to determine why a consumer made the purchase that he did. Many times he tells us reasons that may make sense to him but actually, when you analyze it it does not quite make as good sense. The emphasis, I think, has been on the variety. I think the people all over the world like to have a variety too. Therefore, in some degree they will select an import because there are not as many of them as there are some of our lower priced cars being driven in this country. They also look at it and there is a mystique that creeps in occasionally that the foreign-produced cars are of a higher quality than the cars here in the United States even though I do not agree with that at all. I think we make the finest cars here in America. I think we always have and I hope we always will. In some cases they find in those cars, and at a price that is attractive to them, perhaps some features or styling that have more appeal than what we have been able to generate for them here.

Senator Ribicoff. Now, you place great emphasis in your statement on increasing productivity in the United States as an answer to the problem of competitiveness. I am now asking about the limits of productivity.

How many more cars can you take off the production line in the United States as against Datsun in Japan, for example? How many cars do they take off the assembly line per hour or per day?

Mr. Murphy. Well, everything, of course, is relative. A plant has to be designed, your facilities have to be constructed and you have to staff your plants in order to attain whatever production rate you might gear up to. We run plants here in this country at a rate of more than 100 an hour in passenger cars. The Vega plant at Lordstown has gotten a lot of publicity as being run at 100 an hour which has been characterized as a very high rate. Actually we have run our plant in Lansing, a Fisher Body Oldsmobile plant, at a higher rate. That is probably one of the highest automotive assembly rates any place in the world.

But each facility has to be constructed and has to be tooled and staffed in order to make whatever production level you decide it should be.

In Japan they have plants and I am sure they haven't run them as high as that level, but they run them at what they consider to be an efficient level based on their standards.

Senator Ribicoff. Then their assembly line isn't any faster than General Motors assembly line?

Mr. Murphy. No sir.

Senator Ribicoff. So as far as productivity goes you do not have that problem.

Why has there been so much publicity about inhuman work quotas. I am not saying there are, but your plant in Lordstown has been the subject of so many newspaper stories and articles. What has caused that publicity?

Mr. Murphy. Mr. Chairman, the Lordstown situation, as you indicate, has received extensive publicity and I think probably has been the subject of more misunderstanding than any one thing perhaps in General Motors in the last 5 years.

The problem at Lordstown was essentially this: we had a plant and it was one of a number of plants that were being operated by two separate organizations within General Motors, the Fisher Body Division making the bodies and the Chevrolet Division making the chassis, and the two things were then put together and a car made.

As part of our quest to increase the efficiency of our operations, and having had some experience with running an assembly plant under what we call a single management, we made a decision to combine those two managements and have the plants operated by what we call General Motors Assembly Division and we did that at the end of 1971.

Now, we had done the same thing to six plants about 3 years previously and in each one of those cases we had a strike. We put an additional four, including Lordstown, under one management at the end of 1974 and in three of those we subsequently had strikes. There has been a lot of publicity about when a man is on the assembly line having to do the same repetitive function hour after hour that gets to him somehow and it dehumanizes him. We find the most difficulty we have in our plants is when we change things, in other words when a man is being confronted with new tasks. When we put the two managements together and now have one management, we can change the processing and as a result we change a lot of the jobs in the plants. We also no longer had two union locals, we were only going to have one bargaining unit, and this combination of factors resulted in labor unrest and this was presented in the press as: we were trying to run the line at an extremely high rate; we were trying to dehumanize the people; it was a young work force and would not respond to that. Actually it was not the youngest work force. We have a plant where the average age is younger. It is not in our interest to try to run the plants faster than people can work. All we want is do the job as efficiently as we can and get the job done in the best quality manner, and that is what we were seeking.

Senator RIBICOFF. In your past experiences with trade negotiations has General Motors had any role in such negotiations, at GATT for instance? Have you been brought in on consultation or has your advice been sought by American negotiators?

Mr. MURPHY. We have tried to give our inputs to the negotiators so they would recognize what we felt the issues and perhaps some answers might be.

In the Kennedy round we, I believe, acted in an advisory capacity.

Senator RIBICOFF. Advisory capacity as a company or part of the general——

Mr. MURPHY. Well, as a company. And some of our individual executives, I believe, were in the advisory.

Senator RIBICOFF. In my most recent report of the Finance Committee dealing with the trade negotiations that will begin in September, it was my recommendation that representatives of industry, labor, agriculture, and Congress should be part of the official U.S. delegation and play a role. We need the experience of each one of these groups if we are really going to have meaningful trade negotiations. Do you go along with that suggestion?

Mr. MURPHY. I agree with you, Mr. Chairman, that we need a greater degree of cooperation among labor, government, industry. We are all after the same objectives and I think we should be able to understand one another's approach to be sure that going into those negotiations the U.S. negotiators have all of the facts and factors marshaled carefully.

Senator RIBICOFF. I have one more question, then my time is up and I will come back with some more.

I have one of your exhibits here indicating the annual motor use or registration taxes for selected countries, something that concerns you and should concern us. In the United States it is $14 for the Volkswagen Beetle and the Toyota Corona is $14. GM Vega $17. Now, if I take that GM Vega across to Germany it is $103. If I take it across to Italy it is $168. In Japan the tariff is $163 and the commodity tax is $964.

I think this is a problem that probably bothers every one on this committee. Here we are faced with such unfairness and no reciprocity.

What do you think you would require of U.S. negotiations in trade agreements when a Volkswagen and Toyota can come in here with the user charge of $14 and your Vega goes all the way from $103 in Germany to well over $1,100 in Japan?

Mr. MURPHY. Well, as I indicated in our statement, Mr. Chairman, we feel that these nontariff barriers, as you indicate, are perhaps more important than tariff barriers themselves, and should be removed. We should be working toward a complete removal and complete freedom of access to the markets here and we should have similar free right of access to the markets overseas and should not be burdened with the type of restrictive taxes and road taxes and horsepower taxes and that sort of thing that have been the practice in some of these overseas countries.

Senator RIBICOFF. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman.

Mr. Murphy, I certainly commend you for an excellent statement and the supporting information which I feel is going to be extremely valuable, not only to this committee but to the Members of Congress in better understanding the multinational corporation, especially your company. It is the many questionable assumptions that have been made, that I think have confused Members of Congress and the general public and have been very damaging as far as consideration of legislation.

I have just one clarification that I think would help to better understand the position of General Motors. What percentage of your total foreign production is returned to the United States? I know it is a very small percentage. I wonder if we could have a figure.

Mr. MURPHY. Out of approximately 1.6 million units that we produce overseas, about 60,000, I think, came back into this country in 1972.

Senator FANNIN. Of a million?

Mr. MURPHY. Of 1,600,000 units, about 60,000, I believe it was, came back into this country last year.

Senator RIBICOFF. You would exclude Canada?

Mr. MURPHY. I was talking about overseas, that is correct.

Senator FANNIN. What about Canada?

Mr. MURPHY. In Canada we are operating, as our statement indicates, under the terms of the Automotive Trade Agreement. Under that agreement there is free movement of merchandise, automobile merchandise, across the border by the manufacturer. As part of that agreement we rationalized our production. We concentrated in Canada on the higher volume vehicles, in order to get the advantage of scale and get an increase in the efficiency up there and ship from here the lower volume type of product to take care of our Canadian demands by shipping from the United States. So there is considerable movement back and forth across the border but with a net balance in favor of the United States as far as our operation is concerned.

Senator FANNIN. In the overall we have quite an imbalance of trade with Canada.

Mr. MURPHY. The latest statistics by the Commerce Department, Senator, we understand will show about $100 million in favor of the United States on automotive trade, as we understand the figures for the year 1972. That is the first time in about 3 years there has been a favorable balance for the United States.

Senator FANNIN. I realize that with the imports of petroleum products we are going to have a greater problem as far as balance of trade. We hope we can get those petroleum products from Canada.

You made a statement about the foreign cars having leveled off, imports of foreign cars. Is that true of the Japanese imports?

Mr. MURPHY. The Japanese imports last year in total, I think, perhaps were up a little bit because the Mazda, which was a relatively new entry, seemed to go up in demand. But there were downs on some of the traditional ones. The biggest overall decrease was in the German manufacturers, the European-based manufacturers. In total, all of the imports into the United States from overseas sources was down percentagewise, and in absolute numbers had leveled off for the first time in about 10 years.

Senator FANNIN. Well, I was concerned about the reports we had, for instance, that about 20 percent of all of the sales in southern California were Japanese.

Mr. MURPHY. I do not have that figure, Senator, but the west coast market has been heavily an import-type market in recent years.

Senator FANNIN. Looking forward to the future, as far as our competitive position is concerned, does not Japan offer us the greatest problem in that regard?

Mr. MURPHY. Japan is a very productive nation and they have worked very aggressively to establish themselves in world trade. Exports are extremely important to them because of their geography and the population characteristics of the country and they are very aggressive competitors, a very formidable one. They make good merchandise and they are very aggressive in their merchandising all over the world.

Senator FANNIN. Have they not been almost ruthless in their barriers to our products?

Mr. MURPHY. They have had very effective barriers. Not only the tariff—the tariff now has been reduced—but they still have a formidable commodity tax that makes it very difficult to penetrate their market.

Senator FANNIN. So I understand. Then, of course, you have many other products, as I understand it, you have a tremendous problem penetrating the market with your other products.

Mr. MURPHY. We are represented in Japan and we are trying to sell whatever we can to Japan.

Senator FANNIN. You support the investment tax credit and accelerated depreciation, and I do, too. Would you care to comment on the proposal to eliminate the foreign tax credit?

Mr. MURPHY. In our judgment, as we indicate in our statement, Senator, we think that would be a mistake. It would put a U.S.-based company in the position of being at a disadvantage against the counterpart company based in another country.

Senator FANNIN. I just feel that we need more information in this regard, because this is one of the matters that is going to develop a great amount of controversy. So if you would want to expand on that in writing, it would be appreciated. The chairman is very familiar with it. I know he has stated it, and I felt that perhaps we should have from you a statement that would elaborate on this matter.

Mr. MURPHY. We welcome the opportunity and we appreciate your invitation, Senator Fannin.

The U.S. foreign tax credit, if it were to be removed, would put all of the U.S.-based companies in trying to compete in overseas markets at a disadvantage. We would have to take an entirely different look at any opportunities overseas because of the smaller return that we could anticipate after taxes on any investments that were made in any overseas areas.

(Mr. Murphy subsequently submitted the following:)

EFFECT OF REPEALING U.S. FOREIGN TAX CREDIT PROVISIONS

Under current Federal income tax, U.S. taxpayers receiving income from abroad may offset against their U.S. tax liability on this income the amount of foreign income taxes paid on the same income. It has been proposed that a tax deduction be substituted for the U.S. credit for foreign taxes paid on foreign source income. This substitution would, in effect, offset against U.S. tax only about half of the foreign taxes paid. One such proposal is contained in S. 151, Foreign Trade and Investment Act of 1973.

Operation of Repeal of the Foreign Tax Credit

Repeal of the U.S. foreign tax credit would result in a sharply increased tax burden on foreign source income received by U.S. taxpayers. If the foreign tax credit were repealed, the income of foreign subsidiaries of multinational companies based in the United States would be subject to double taxation.

The operation of repeal of the credit may be illustrated as follows. Currently, the corporate income tax rate is about 50% in most developed countries. Accordingly, in the case of each dollar of pre-tax earnings of a subsidiary in these foreign countries, approximately 50c is left after taxes. However, under the proposed repeal of the foreign tax credit, the United States would tax at about a 50% rate the 50c left after deducting foreign income taxes, leaving only about 25c after tax. In effect, repeal of the foreign tax credit would result in cutting nearly in half the income received from foreign subsidiaries.

To verify the above hypothetical effect of repeal of the foreign tax credit, General Motors has calculated the effect of repeal of the foreign tax credit on its own foreign income for the years 1971 and 1972. The results of this calculation for each year indicate a combined U.S.-foreign tax rate of 74%. After income taxes, this would leave only 26c out of a dollar of foreign earnings. This would be only half of the income of 52c which would remain from each dollar under current rules.

It is understood that comparable analyses by other U.S. multinationals show similar results.

Analogy to State and Local Income Taxes

Advocates of repeal of the foreign tax credit have questioned why foreign income taxes should be allowed as a direct credit (i.e., 100% offset) against U.S. tax liability when state and local taxes are allowed only as a deduction in arriving at taxable income. Accordingly, they believe foreign taxes should not be given more favorable or preferential treatment than state and local taxes.

It is submitted these two situations are not comparable. First, state and local tax rates are established with the much higher Federal tax rate in mind. Accordingly, state income tax rates range from 1% to 12% as compared with the 48% Federal rate. Most local income tax rates generally range from 1% to 2%.

Second, and more importantly, all corporations competing within a given state are subject to the same tax rate schedule, and therefore, taxes are neutral as between taxpayers. However, if the foreign tax credit were repealed, U.S.-based multinational corporations would be at a competitive disadvantage with foreign-based multinationals operating in the same foreign area.

Finally, it should be noted, foreign tax rates in the developed countries, over the years, tend to move up and down at about the same level. Thus, by repealing the foreign tax credit at this time, the combined U.S.-foreign tax rates would approach 75% on income from most developed countries. Such rates are only supportable on a wartime emergency basis, not as a permanent peace-time tax level. Clearly, these rates could not be justified on a continuing basis where they are imposed selectively on foreign source income of U.S. subsidiaries. To do so would result in the following adverse consequences.

Competitive Effect of Repeal of Foreign Tax Credit

For tax purposes the developed countries generally treat foreign source income in line with the current U.S. procedure of allowing a foreign tax credit. Thus, multinationals based abroad bear about the same rate of tax on income from their foreign subsidiaries as U.S. multinationals currently bear on their own from foreign subsidiaries. Therefore, under current foreign tax credit procedures, U.S. multinational companies have neither a substantial advantage nor a disadvantage.

However, if U.S. business firms operating abroad were taxed twice on their full foreign earnings, they would be at a serious disadvantage since for competitive reasons they would be required to absorb the tax penalty resulting from loss of the tax credit.

If the foreign tax credit were repealed, foreign-based multinationals would continue to pay the same tax rate on both foreign and domestic income. However, given repeal, U.S.-based multinationals would pay a tax penalty on foreign business as opposed to domestic operations. Accordingly, foreign-based multinationals operating through the world would have a substantial advantage overall in comparison with their U.S. counterparts.

Effect on U.S. Auto Industry of Removal of Foreign Tax Credit

The obvious intent of S.151 and similar bills is to discourage overseas investment.

In the face of the substantial tax penalty which would result from repeal of the foreign tax credit, all U.S. businesses operating abroad would need to reappraise any opportunities overseas because of the smaller after-tax return they could anticipate. To the extent U.S.-based multinational firms hold back from expansion abroad because of a low after-tax return, the vacuum so created would be quickly filled by less heavily taxed foreign competitors.

As an example, the auto industry is now faced with hard competition from European and Japanese multinational companies in all world areas. In many areas these foreign companies already have a larger percentage of local sales than U.S. companies, and it is clear that the Toyotas, Volkswagens, and Fiats, would aggressively move in and take over any areas which U.S. companies do not enter.

Effect on U.S. Exports of Repeal of Foreign Tax Credit

U.S. industry is currently competing aggressively abroad through both exports and foreign production. The survey by the Emergency Committee for American Trade, a private research organization, shows that between 1960 and 1970 U.S. multinational corporations increased their export sales at almost the same rate as the sales of their foreign affiliates.

Thus, for the United States as a whole, holding back expansion of foreign operations because of repeal of the credit would mean a loss of sales opportunity in foreign areas. Without the distribution networks made possible by foreign operations, U.S. products could not effectively enter many foreign countries. Exports from the United States of finished goods and components would no longer be made to the extent now permitted under foreign import and content regulations. This position is supported by the findings of the recent U.S. Tariff Commission study conducted for the Subcommitee on International Trade of the Senate Committee on Finance.

Finally, many U.S. controlled foreign operations tend to specify the use of American made plant machinery. Thus, limiting foreign operations would also reduce this significant outlet for U.S. exports.

Effect on U.S. Balance of Payments of Removal of Foreign Tax Credit

Failure to expand in any overseas areas because of a low after-tax return would also have an unfavorable effect on the balance of payments, apart from exports.

The expansion of overseas investment in the case of General Motors and many other multinational firms has been financed largely by borrowing overseas and through retained earnings. These companies therefore, do not need to send overseas any substantial dollar amounts from the United States for their foreign operations.

As a result, the dividends and other payments to U.S. multinational firms by foreign subsidiaries have exceeded direct foreign investments in every year. Therefore, cutting back on foreign expansion under the pressure of a low after-tax return would in the long run adversely affect the United States balance of payments position.

Repeal of Foreign Tax Credit Would Reduce U.S. Employment

General Motors and other multinationals would prefer to manufacture in the United States and export to foreign countries to the greatest extent possible. In this way the maximum efficiencies of scale could be realized. However, because of both tariff and nontariff barriers to U.S. exports, this objective cannot now be fully realized except as a by-product of foreign operations. Thus, repeal of the foreign tax credit to the extent it limits foreign operations would only reduce U.S. manufactured exports in the form of completed units, components, replacement parts, and plant machinery.

More important, there would be no offsetting increase in domestic employment opportunities since limitation of foreign manufacturing operations of U.S. companies would not result in transfer of these operations to the United States. Instead, the operations of multinationals based in foreign countries would be expanded to take advantage of this foreign sales opportunity.

Senator FANNIN. I think you probably heard or had a report on Mr. Peter Flanigan's testimony yesterday where he said the Treasury Department is looking into this matter, that he did not have any answers at this time, but that some changes may come about although he did not indicate that he was in favor of changes. That is why I think we should seek more information and I certainly would like to be better informed. I think, the thing is very serious and I do not want to get into a position where we are bringing on a confrontation with some of the other countries of the world.

You stated that establishment of the Common Market was significant toward free trade. Then you go on to say, nevertheless, with the high common external tariff and plan removed of internal barriers there was only one course left open to producers outside of the market areas: invest directly in manufacturing capacity with the newly formed market areas.

Are you not saying you had to really jump the tariff wall in order to compete in the European Common Market?

Mr. MURPHY. Yes, sir, but we were having to jump many tariff walls before that time. Now it is one common tariff barrier against anybody that was located outside. We feel, though, it was a significant move in the direction of free trade. The very fact that those groups of countries, the six in the Common Market and seven in the European Free Trade Association, could accommodate themselves and remove the internal barriers within those market areas was a significant move toward, let us say, freeing trade generally. Now we have to continue beyond that. In other words, we have to get all of the barriers down.

Senator FANNIN. Are you saying high external tariff is a significant step toward free trade?

Mr. MURPHY. We felt the very fact the six countries in the European community would get together and agree that they would lower the tariff barriers among themselves, recognizing that they had strong nationalistic tendencies. and language differences and all the rest, this was a very significant step, particularly at the time.

Now, we think they should go further. We think all of those barriers, internal, external, the tariff and nontariff should be removed and that that would be the opportunity for growth as we envision it for the progress for the whole world. We hope that the United States would be able to participate in that growth and all of the countries would grow in a faster and more effective fashion without the handicaps of those barriers.

Senator FANNIN. Of course, we have had serious problems under GATT for many years and I imagine you consider the Kennedy round was a failure as far as the U.S. automobile industry is concerned; is that correct?

Mr. MURPHY. Well, of course. the Kennedy round did result in some reduction in tariffs but it still ended up with tariffs against the U.S. automobile going into some of the countries still remaining higher than the tariff where they were coming.

Senator FANNIN. Many times higher. Is it not 3 percent now for the cars to come in?

Mr. MURPHY. Yes, sir.

Senator FANNIN. And is there any country now below 10 percent?

Mr. MURPHY. Well, Japan is now at 6.4 percent.

Senator FANNIN. But not with the nontariff barriers considered?

Mr. MURPHY. Not with the nontariff barriers considered and they levy the 6.4 percent on the imported value of the car coming in, which includes all of the insurance and freight.

Senator FANNIN. Thank you, Mr. Murphy.

Mr. MURPHY. Thank you.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Mr. Murphy, individuals in Canada who import new automobiles from the United States are assessed a 15-percent duty while U.S. individuals can import a Canadian car duty free.

Furthermore, there is an embargo on used car sales into Canada today while Americans can buy used Canadian cars.

Is that your definition of reciprocal free trade?

Mr. MURPHY. Senator, the provisions of the automotive trade agreement between the United States and Canada were negotiated by the two governments and they were worked out as a basis for, let us say, sharing in the automotive market on both sides of the border.

The two governments, the negotiating teams of the two governments, determined this. We then. as manufacturers have to work within the framework of that agreement and, as you say, there are certain aspects of it where the duty free movement is limited to the manufacturer rather than to the individual.

We think that the auto products agreement was a significant step toward breaking down barriers.

At the time it was undertaken, Canada was confronted with a very serious, from their standpoint, trade deficit on automotive products with the United States. They had at that time a local content requirement and they were looking for a means by which that significant trade drain from their standpoint could be remedied.

They could have adopted such measures that possibly could have in the judgment of our negotiators been even more restrictive as far as the United States is concerned. So the negotiations were freely entered into and the agreement freely arrived at. We as manufacturers are governed by that and are trying to work as we understand it to achieve the concept of the agreement and it should be in the best interests of both countries.

Senator HANSEN. And you would defend it as an expression of the sort of arrangement we might expect from reciprocal free trade agreements entered into?

Mr. MURPHY. No, sir; I think that it was in the case of the United States and Canada. We were two countries with just a border between us, physically located contiguously.

We also have the advantage of sharing similar tastes, common language, for the most part where our borders interface.

So I think there were unique circumstances but I think in that case the negotiators between the two governments tried to take a look at the total market and then tried to see how most effectively could that market be served in the interests of both countries.

Senator HANSEN. Mr. Murphy, isn't the thrust of your statement as to why your investment abroad is related to foreign tariff and nontariff barriers, which make it impossible to export to those markets: isn't that by inference an indictment of our past trade negotiations?

Mr. MURPHY. Well, Senator, I think I don't consider it to be an indictment. I think it is a factual presentation of what the circumstances are today.

I think the goal that we should be seeking is, can we rediscuss those; can we get the ideal of free trade so that we can all make progress?

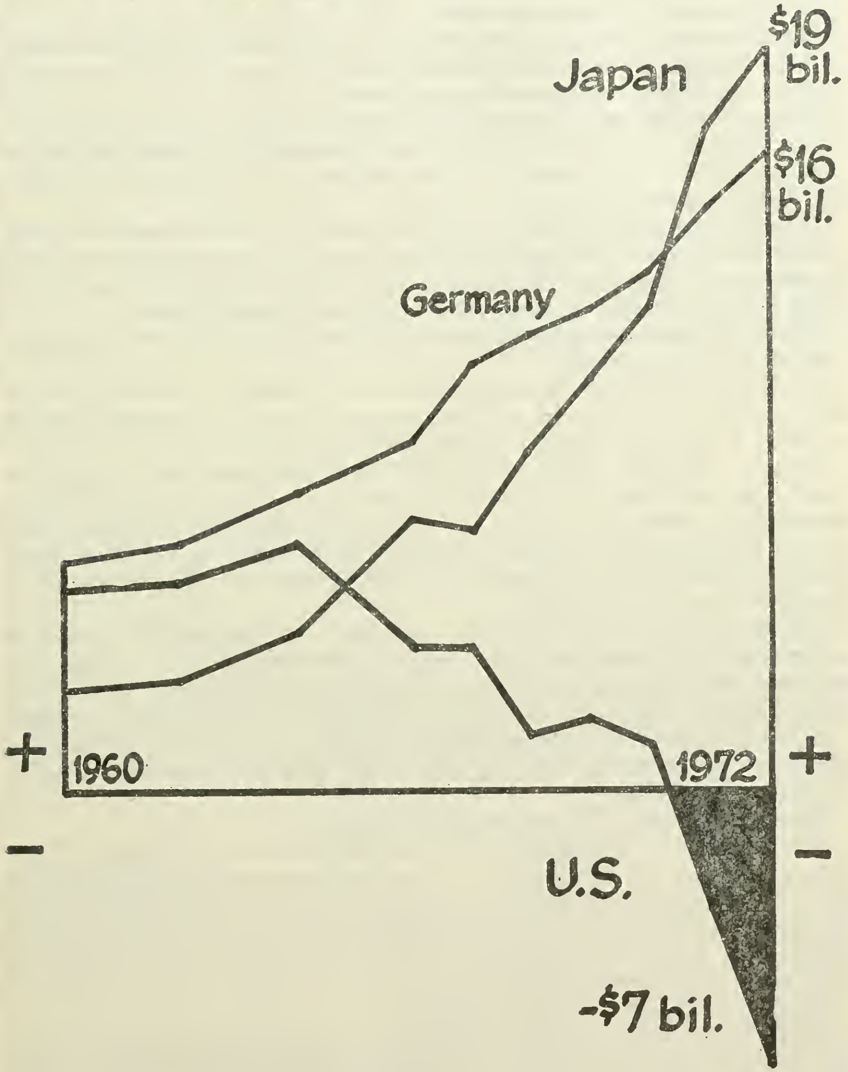
I think if we have free trade then we have to prove our competitive ability in the world markets and I think that we can make progress and I hope the whole world can make more economic progress faster.

I think it would be in the interest of the United States and the people here: I think that was what we are all after.

Senator HANSEN. The staff on the Finance Committee put together a print that is dated February 26, 1973.

Perhaps you have a copy of it before you. If you will turn to page 23, you will see a chart that is headed Balance of Trade in Manufacturers, and displayed there by lines are the balance of trade for the nations of Japan, Germany, and the United States.

(The chart referred to follows:)



Balance of Trade in Manufactures

Senator HANSEN. I note that Japan shows export of its manufactured products reflecting a balance of $19 billion.

Germany has a balance of $16 billion. These are positive balances.

On the other hand, we have a deficit of $7 billion and as Chairman Long has pointed out, if we were to add to these figures the cost of insurance and freight on products that we import—I understand those have been adjusted and are reflected by this chart.

On the basis of this, is it your contention that within the present framework of our negotiations the United States is on course and is pursuing the policy that will reflect the best interests of this country and of the rest of the world as well?

Mr. MURPHY. Certainly, Senator, that deficit that we have in our balance of trade is a very serious matter and it is one that I think everybody in America should be concerned about.

Part of the picture, of course, was affected by the international monetary situation where the currencies and particularly the currencies in Germany and Japan, were really overvalued in relation to the dollar that created some imbalance.

Hopefully going forward and that was one of the recommendations that we have in our statement, that we should look very carefully at the international monetary mechanism to be sure they don't act as deterrents, that they don't inhibit the interplay of market forces.

We should correct some of the conditions that we have been confronted with in the past.

I think we have to look at the removal of the trade barriers, whether they be tariff or nontariff, and try to get an equal opportunity as an exporter for America as against the other countries.

Senator HANSEN. The chairman of the subcommittee has spoken more than one time, and I certainly don't mean to put words into his mouth, but generally, I think the thrust of his concern has been that he has witnessed the erosion of the bearing industry in his State, both ball and rotor, as I understand, reflecting the increased imports of those products into America.

My question is: Can American industry with the ready transfer of technology, of knowhow from one country to another, successfully compete with foreign nations and pay at the same time wages and other fringe benefits far, far greater than is paid to foreign workers?

Senator RIBICOFF. General Motors happens to have a ball-bearing plant in Connecticut so Mr. Murphy might address himself specifically to his own company.

Senator HANSEN. Thank you, Mr. Chairman.

Mr. MURPHY. I will respond if I may about that and Senator Hansen's observation. I think that is a real challenge to the United States. And, Senator Ribicoff, I noticed in your report to the chairman of the Finance Committee you made a statement. You said, I believe: I have faith in the ability of the basic industries in America, on the long haul, to be able to compete effectively in——

Senator RIBICOFF. If you will yield.

What concerns me is that no great nation can afford to have its basic industries destroyed. Steel, automobiles, electronics, chemicals, are the sinews of a great power. We can't be in a position to permit our basic industries to go under any circumstances.

Mr. MURPHY. No sir.

Senator RIBICOFF. There must be safeguards, if you are going to remain a great nation, to secure these industries in this Nation. That is why I am concerned about safeguards for basic American industries. That is the interpretation I am placing on it because you can see the continuous erosion of the competitive position of our basic industries.

Mr. MURPHY. I believe you did say that you have faith in the ability of our basic industries to compete on the long haul in the world markets and I am convinced of that. I think we have to work very hard. I look at the wage rates and the standard of living we attained here in the United States as a real hallmark of success and we attained that by working very hard. I am not talking about we, necessarily, the people that are on the scene today, but I am talking about America. This was a wilderness and people came over here who were willing to work and make sacrifices and develop the resources that were here. They gave a tremendous account of themselves in the world and as a result of that have attained the standard of living and wage rates we have. It is our job. We can't rest where we are.

We can't sit back and say we have got it now and everyone else should stay the way they are. Those people have the same desires, same objectives and they want to develop and I think we should be interested in helping them develop. At the same time we should be redoubling our efforts everyday to be as competitive as we can, to be as productive as we can so that we can continue to justify those wage rates and the standard of living that we have and I think we can do it but it is going to take a lot of effort and take a lot of dedication on the part of everybody.

Senator RIBICOFF. You see what we need is the reciprocity between countries based on the fundamental principle of fairness.

Mr. MURPHY. Yes, sir.

Senator RIBICOFF. This becomes a very important factor. Of course, you do have a difference between the positions of low technology industries and high technology industries. In 1971 we had a trade surplus of about $9 billion in high technology goods and an overall deficit of about $15 billion in low technology goods. There is great concern as you watch the low technology industries being phased out, because of their failure to be able to compete with countries with much lower foreign wage rates. Low wage imports really flood the American market and there is much concern over unemployment because the low technology industries are mass employers. High technology industries don't employ that many people and yet we showed a chart yesterday to Mr. Flanigan which showed a drop in the past 4 years of the number of employees, both production and administrative, in high technology industries.

Now, when you bring this problem up to the Europeans, or to the Japanese they say the United States should concentrate more on service industries. Well, no great nation can remain a great nation by taking in someone else's laundry. You have a serious philosophical problem and deep concern looking forward to America's overall position in the world economically and politically. Now there is this monetary crisis. We are going to have to address ourselves to it because the value of the dollar certainly has declined in world markets. You can say what you will but the credibility of this Nation's currency is a very important factor in the arsenal of power, just as much as your military posture. There is no question that America's prestige is very deeply hurt by the devaluations and continued weakness of the dollar in the world. This all has to concern us.

Even if you are a multinational corporation, located all over the world, when you can make your profits and bring them back home, your base is still in the United States of America. Your success as a company cannot continue if your base erodes in the United States, no matter how high your profits might be abroad. This is still your basic market. These are some of the problems that worry us and that we are going to have to address in considering the trade bill.

That is why I suggested to Mr. Flanigan, while some keep insisting that the administration bring the trade bill up immediately, that my preference would be that President Nixon, Mr. Shultz and Mr. Flanigan be very careful, I would rather see them take a little more time before bringing up their trade bill. I don't think that there is anything more important for the economic future of our Nation than what the President finally sends up and what the Congress does on the new trade bill, and the negotiations that are going to follow on money and trade.

Mr. MURPHY. I agree, sir.

Senator RIBICOFF. And Mr. Hartke has come up with his bill, a very controversial bill. As I have indicated in sending out the notices of this hearing, I am seeking alternatives to the Burke-Hartke proposals. Those who condemn the Burke-Hartke bill have an obligation to come up with some alternative proposals.

I am sorry to have taken up your time, Senator Hansen. I won't charge this to you.

Senator HANSEN. You have been very helpful, Mr. Chairman. I appreciate so very much the points you have made.

I think there is yet another area that we ought to consider, and that is that as we have expressed in legislation our environmental concern in this country, we have added yet another burden to American industry. My question is, do you think we ought to leave unchanged those trade agreements which have been entered into with nations around the world that have so far imposed far less restrictive and far less expensive standards of environmental concern on their industries than we do on our own. In other words, let's take the example of an automobile made in Tokyo and compare it with one made in Detroit. As nearly as I know, despite the increasing concern that is evident in Japan, there is as yet no comparison between the pattern of overall performance behavior that typifies the Japanese manufacture of a car on the one hand with that that you have to observe in Detroit or Flint or wherever, and my question is, if we are going to be fair, if we are going to regard workers and companies for doing good jobs and at the same time being good citizens, too, should we not recognize that it costs more under different conditions to produce a car, everything else being equal, and it is not equal, of course. But assuming everything else was equal, it would still not be more expensive to produce a car in Detroit where we have said you can't pollute the water, you can't pollute the air, you have got to observe many conditions that are as yet not imposed nearly to the extent we find them made a matter of law in America.

Mr. MURPHY. You have a very good point, Senator. I think in the developing countries of the world there is a growing awareness of the importance of ecology. I think perhaps we may be tuned a little more sharply to that in the United States today. I think we should be looking at that and concerning ourselves all over the world, and they did have a Stockholm conference under the sponsorship of the United Nations where they were dealing with this and I think it points up the facts of the thing we have to concern ourselves with. In the developing countries, places where people have unemployment beyond our comprehension really in this country today, they are looking at the environmental aspects as being a cost that they at this stage of their development cannot, let's say, take on to the same degree that we can at our stage of development. I think we have to turn the clock back a little bit to see where were we are the time that perhaps we weren't paying as much attention to the ecologists as we are today. And if the deterrents had been put in front of us at that point would it have hampered our industrial development to such an extent that we wouldn't have the standard of living we have here and we wouldn't have the wages that we have here? I think it is a very delicate balance that we have to evaluate. It should be part in my judgment of looking at the entire picture. That is why we have urged particularly in this country that we take a very careful look at the cost-benefit relationships to the thing that we are accomplishing. Are we improving the ecology at a commensurate rate with the cost and assets that we are putting in or could they be more productively employed in another area? I think it is a very complex thing. It is something we have to be mindful of. I think we should be encouraging the developing countries certainly to take the same degree of responsibility that we feel that we are doing here today in the United States.

Senator HANSEN. I would just like to observe, Mr. Chairman, that with all due appreciation and respect for your opinions, Mr. Murphy, and I do have tremendous respect for you, sir, I must admit that I am inclined to the view taken by the distinguished chairman in saying that I think aside from the repeatedly expressed concern of this country to help other people wherever they may be around the world, aspire with some reasonable hope of realization to a better life, I am inclined to believe that we have even a more important role than that, and that is that by the very nature of sentiment in this country, by those philosophies to which we have subscribed many, many times on the battlefield and everywhere else, we have an important role to play and my guess is that we can not effectively discharge that role and that duty we feel to all mankind as we express it in terms of world peace and everything else, without being a strong nation, I am deeply concerned that some of the trade policies we have been pursuing will so weaken this country of ours, will so weaken this America, that we will not have the clout, we will not be able to go to Peking and we will not be able to go to the Kremlin and receive the reception that has electrified the world, and I think that the sort of reception we get will be in direct proportion to our industrial potential which, of course, undergirds our military strength in this country, and if we ever think that these other goals of helping people aspire to better lives everywhere are sufficient to submerge our insistence upon being No. 1 industrially, then I say that we will lose far more in these vital areas of concern than we will gain in others that are also of importance to us.

Mr. MURPHY. I agree with you completely, Senator. We have to keep our own house in order. We have to maintain our strength if we are going to get the job done in a total sense.

Senator HANSEN. I must say, Mr. Chairman, that this chart doesn't give me much reason for encouragement.

Senator RIBICOFF. Senator Hartke.

Senator HARTKE. Let me ask you, do you have any suggestion at all as to what we should do specifically at this moment in regard to how we are going to alleviate the severe balance of payments and balance-of-trade deficit that we are suffering and continuing to see accelerated?

Mr. MURPHY. Senator, we tried to address ourselves to that subject in our statement and we offer six points for consideration in our oral statement. They are reciprocal tariff and nontariff barrier reductions——

Senator HARTKE. Take your No. 1 item, reciprocal and tariff and nontariff barrier reduction. I am sure you are an expert in this business and you well understand there was a fatal mistake made in the Kennedy round that nontariff barriers were excluded from consideration when it became apparent that practically nothing was going to be done; isn't that true?

Mr. MURPHY. Well, I don't know that they were completely overlooked but certainly not enough attention was paid to them and never has been in the past.

Senator HARTKE. In the Kennedy round there was a specific decision to exclude nontariff barriers from consideration.

Now do you honestly believe that we can have any type of effective reciprocal trade arrangement as long as there are nontariff barriers which are permitted to stand, such as Japan has at the present time on automobiles?

Mr. MURPHY. Absolutely not.

Senator HARTKE. Can you at this moment sell a General Motors automobile of any kind made inside of the United States in any quantity in Japan?

Mr. MURPHY. Not in the type of quantity we would like to sell them.

Senator HARTKE. Can you specifically spell out what those restrictions are and why you cannot?

Mr. MURPHY. Well, they have a tariff of 6.4 percent, which is a little more than double our tariff here, and it is applied to the——

Senator HARTKE. In good conscience then why would they talk about retaliation which would occur as a result of enactment of the so-called quota legislation in the Burke-Hartke bill?

Mr. MURPHY. I agree that we should try to remove all those barriers and we should get ourselves on the same basis going into Japan or any other countries that those manufacturers have in Japan coming into this country.

Senator HARTKE. I want to stay on Japan and not other countries in the field of automobiles. There is a distinct and almost complete blackout of American automobiles into the Japanese market; isn't that true?

Mr. MURPHY. Very few go in there.

Senator HARTKE. And it is because of the trade restrictions that are there; isn't that true?

Mr. MURPHY. It is primarily because of the trade restrictions.

Senator HARTKE. And isn't it possible if you wanted to at this moment, that if you had absolute free trade, that no matter what anyone else said to the contrary, you could produce a competitive automobile for the Japanese market?

Mr. MURPHY. It would be very difficult to say completely competitive. We have a Vega that competes with the Japanese right here in the United States. We feel it is a very effective answer to them. We have to recognize that they are able to get their product that is competitive with the Vega over here and pay the tariff and trade and the duties and the cost of shipments, get here and still compete with our product here in our home base. They have the advantage of a lower wage scale in Japan which is part of that problem.

We feel that there is a market and there should be a market for our products and it should be for perhaps some of our larger cars and that we should have the right to go in there on a free basis and have access to that market the same as they have acces to any market that is here.

Senator HARTKE. Yes; I quite agree. In other words, what you are saying is that if you have a standardization of wages and if you have free and open trade there is no question that the United States is a competitive producer.

Mr. MURPHY. Even with the wage disparities we are a competitive producer.

Senator HARTKE. I hear America run down so often that I get tired of having everybody disparage American productive power and American labor and American industry. I mean, I honestly think that somebody ought to come on and say, "Look, I am proud of the productive power of American industry and the American workingman and we are competitive in the world."

We are not competitive when we have to deal with a disparity of wage rates and trade barriers. Do you agree with that?

Mr. MURPHY. Yes, sir.

Senator HARTKE. I am sure glad to hear somebody finally come along with that type of agreement. On the international monetary—is that your second point?

Mr. MURPHY. Yes, sir.

Senator HARTKE. In this field, I am sure again that you are quite aware of the fact that the first devaluation was a complete failure and for the simple reason that the other countries involved did not intend for it to succeed because of the effect it would have upon their countries. In Japan they absorbed part of the cost; did they not?

Mr. MURPHY. Well, they always will, I am afraid. That is part of the competition.

Senator HARTKE. I mean the Government absorbed part of the cost.

Mr. MURPHY. I am not sure the Government did but certainly the Government should not do it in a case of that sort.

Senator HARTKE. Now let me ask you, is it true at this moment—take a Volkswagen. It is cheaper, for example, to purchase it in the United States than it is in Germany.

Mr. MURPHY. I do not believe so. It may be temporarily because of the devaluation of the currency.

Senator HARTKE. That is what I am talking about. As of right now.

Mr. MURPHY. Right as of this moment cars already in this country, not subject then to the devaluation, if you restate the price over there in the new dollar, so to speak, I think there may be a disparity but it is a temporary one. There should be adjustments.

Senator HARTKE. I know there should be. In Japan, Toyota absorbed all the cost, did they not, on the first devaluation?

Mr. MURPHY. They put their price up in this country after the 10-percent surcharge was put in and then the subsequent devaluation.

Senator HARTKE. Did they not move it back after 10-percent surcharge with only their 10-percent increase in cost, not attributable to devaluation but their actual cost?

Mr. MURPHY. No, sir. I think they had the recognition of the currency valuation.

Senator HARTKE. Will you supply that for the record?

Mr. MURPHY. Yes.

(Mr. Murphy subsequently supplied the following:)

PUBLISHED U.S. PRICE CHANGES OF MAJOR JAPANESE IMPORTS TOYOTA MOTOR SALES U.S.A. AND NISSAN MOTOR CORPORATION U.S.A. (DATSUN)

	Manufacturers suggested prices representative models			
Description of price change	Toyota Corolla 2-door sedan	Percent	Datsun 510 2-door sedan	Percent
August 1971 (pre-freeze)	$1,798		$1,990	
August 1971 increase for:				
Surcharge	65	3.5		
Surcharge and other			140	7.0
Revised prices	1,863		2,130	
October 1971 increase for:				
Currency revaluation			113	5.3
Currency revaluation and other	163	8.7		
November 1971 increase for revaluation and other	33	1.6		
Revised prices	2,059		2,243	
December 1971 decrease for repeal of 7 percent excise tax	(103)	5.0	(122)	5.4
Revised prices	1,956		2,121	
Toyota and Datsun prices were not reduced due to repeal of the surcharge since other costs more than offset elimination of the surcharge				
January 1972 increase for revaluation and other			185	8.7
Revised prices	1,956		2,306	
Increase to include dealer preparation and other	42	2.1	50	2.2
Current price (Feb. 28, 1973)	1,998		2,356	
Memo: Increase since August 1971	200	11.1	366	18.4

[From the Wall Street Journal, Aug. 26, 1971]

VOLKSWAGEN AND TOYOTA BOOST RETAIL PRICES TO REFLECT ADDED TAX—MOVE, WHICH WAS EXPECTED, FOLLOWS INCREASE IN IMPORT LEVY TO 10 PERCENT; PRE-AUGUST 15 DELIVERIES EXEMPTED

(By a Wall Street Journal Staff Reporter)

DETROIT.—Volkswagen of America Inc. and Toyota Motor Sales U.S.A. Inc., announced, as expected, new higher suggested retail prices for 1971 cars to reflect the surcharge recently tacked on imported goods by President Nixon. The two concerns are the largest importers of cars in the U.S.

The levy on foreign cars was increased to 10% from 3.5% as part of President Nixon's new economic program announced Aug. 15.

The increases range from $84 to $153 on Volkswagens and $63 to $153 on Toyotas, depending on models. The higher prices will apply to cars imported after Aug. 15, but won't apply to cars that were already in the country on dealer lots at that time.

The increases range from 4% to 5% on Volkswagens and 3% to 4% on Toyotas. The percentage increases in the retail prices are smaller than the additional 6½% surcharge because the surcharge is calculated on the production cost of the car, rather than its higher retail price.

It wasn't clear whether the importers simply passed along the exact dollar amount of the extra surcharge; neither importer would say.

Volkswagen of America Inc. is a subsidiary of Volkswagenwerk AG of West Germany. Toyota Motor Sales U.S.A. is a subsidiary of Toyota Motor Co. of Japan.

The retail boosts are only the first of several "sticker" price adjustments—both up and down—that may occur on foreign cars in coming weeks as a result of the new economic program. The adjustments announced yesterday, the importers said, reflect only the increased import levy.

But President Nixon also has asked Congress to repeal the 7% excise tax on automobiles, which applies to imports as well as to U.S.-made cars. And both Volkswagen and Toyota said that if the excise tax is removed they would refund the amount of the tax to customers who purchased cars after the effective date of the excise-tax repeal.

Both importers said this would drop the price of their cars to below their level before the surcharge increase was added, and would result in a whole set of new, lower, "sticker" prices at that point.

This is because the surcharge is put on the so-called production cost of a car as it sits on a ship waiting to pass through Customs. The excise tax is based on the first point of sale within the U.S., which is a higher price and in the case of Volkswagen and Toyota is the price the importers charge regional distributors, the importers said.

In addition, both importers held out the possibility of further price changes for 1972 models. One of these adjustments could result from upward valuations in the price of the German mark and the Japanese yen. Both importers continued to express uncertainty about whether they could pass along such increases to buyers during the 90-day price freeze declared by President Nixon if the yen and the mark move upward in relation to the dollar.

Still another adjustment could show up for 1972 model cars later because of increased costs the manufacturers face in their home countries. Toyota said it had given consideration to a price increase to reflect increased labor and material costs before the President froze prices. But Toyota said it currently is reviewing that situation.

Meanwhile, both importers stressed the latest price adjustments applied only to cars that passed through Customs after midnight, Aug. 15, when the increased import levy went into effect. In the case of Volkswagen, these cars are expected to reach dealers within the next several days. Toyota said it didn't have a firm date when those cars would begin reaching dealers.

The increases announced yesterday moved the "sticker" retail price of Volkswagen's most popular model, the Super Beetle, to $2,133, up 4.1% or $84, from $2,049. The price of Toyota's biggest seller, the Corona 4-door sedan, rose to $2,231, up $81 or 3.7%, from $2,150.

Volkswagen's cheapest model, the Beetle, increased to $1,978 from $1,899. This appeared likely to push the Beetle price higher than Ford Motor Co.'s Pinto subcompact, even after the Pinto goes up some from its current $1,919 because of an additional surcharge on its British-made engine and transmission and steering column.

The increase moved the Beetle to within $21 of the American Motors Corp. Gremlin subcompact, which costs $1,999 and to within $112 of General Motors Corp.'s subcompact Vega, which costs $2,090. Removal of the excise tax could alter those gaps slightly, but isn't likely to make them cross.

Toyota's cheapest model, the basic Corolla 2-door sedan, still remained lower priced than all the American small cars, however. It was increased $65. or 3.5%, to $1,863 from $1,798.

Both importers said that the new prices are for cars equipped exactly as those sold at a lower price before the surcharge was increased.

Following is a table showing new and old manufacturers suggested retail prices on popular Volkswagen and Toyota models:

	New Price	Old Price	Increase	Percent change
Volkswagen:				
Beetle	$1,978	$1,899	$79	+4.2
Super Beetle	2,133	2,049	84	+4.1
Karmann Ghia Coupe	2,695	2,575	120	+4.7
Audi 100 LS: 4-door, automatic transmission	3,968	3,795	173	+4.6
Porsche 914	3,769	3,595	174	+4.8
Toyota:				
Corolla 2-door sedan	1,863	1,798	65	+3.5
Corolla 1600 2-door sedan	1,992	1,918	74	+3.8
Corona 4-door sedan	2,231	2,150	81	+3.7
Mark II 4-door sedan	2,436	2,350	86	+3.6
Crown 4-door	3,898	3,745	153	+4.1

[From the Detroit Free Press, Aug. 27, 1971]

NISSAN HIKES DATSUN PRICE

GARDENA, CAL., (DJ).—Nissan Motor Corp., U.S.A. U.S. distributor of Datsun cars, said Thursday it was raising the price of all of its 1972 models to reflect the increased U.S. surcharge on automobiles and also increased manufacturing costs at the Japan factory.

The increase raises to $2,130 from $1,990 the retail price of the company's most popular model, the Datsun 510 two-door.

Nissan also said it would rebate to customers the 7 percent excise tax if Congress passes President Nixon's request.

[From the Wall Street Journal, Oct. 14, 1971]

BEETLE, DATSUN PRICES RAISED BY ANOTHER 7%—BUT VOLKSWAGEN AND NISSAN PREDICT FURTHER BOOSTS IN SALE FOR COMING YEAR; CURRENCY VALUES ARE BLAMED

(A Wall Street Journal News Roundup)

Two of the biggest importers of foreign-made cars raised prices another 7% to reflect rises in value of foreign currencies in relationship to the dollar.

But the importers—Volkswagen of America Inc. and Nissan Motor Corp., U.S.A., which handles Datsuns—predicted further gains in their sales in the coming year.

The price increases were on top of earlier boosts resulting from the Nixon economic plan that raised the surcharge on imports from 3½% to 10%. In the earlier increases Volkswagen raised its prices 4% to 5%, mainly to cover the surcharge increase, while Nissan increased prices some 10% to cover the surcharge increase, while Nissan increased prices some 10% to cover the surcharge increase, while Nissan increased prices some 10% to cover the surcharge and charge general increases in costs.

The latest boost increases the retail price of the popular VW Super-Beetle by $145 to $2,278. Datsun's new increase pushes up the price of its popular 510 two-door sedan by $113, to $2,243. The effect of the new increases has been to push up the price of the Super-Bettle a total of $229 since the freeze began, and to increase the price of the 510 a total of $253 in the same period.

COMPETITIVE POSITION

The two rounds of increase in recent weeks by Volkswagen, the No. 1 importer, and Nissan No. 3, adversely affects their competitive position with Detroit's chief import fighters, the Chevrolet Vega and the Ford Pinto, whose prices have been frozen at 1971 model levels since Aug. 15. That price relationship could worsen if foreign currencies post further increases in relationship to the dollar.

Robert O. Link, national vice president for sales of Nissan, said in an interview that when the extra surcharge is eventually removed, as promised by the Nixon administration, Datsun prices may be unaffected because of likely further rises in value for the Japanese yen.

Stuart Perkins, president of Volkswagen of America, left unclear what effects possible further changes in the value of the mark and a surcharge rollback might have on Volkswagen prices. But Volkswagen's press preview in Vergennes, Vt., he issued a strong plea for early revola of the surtax arguing that "the surtax gives the domestic auto makers a carte blanche to move up the prices of Vegas and Pintos later on," after the price freeze ends. "As a result, people in the U.S. will wind up paying more for transportation," he said.

The actual retail sticker price of Volkswagens and Datsuns will drop 7% when the federal excise tax is removed, but that won't influence their competitive price position because the federal excise tax applies to all new cars—domestic and imports alike.

Here's how the major models compare in price following the latest Volkswagen and Nissan boosts:

	Prefreeze	Current
VW Super-Beetle	$2,049	$2,278
Datsun 510 2-door	1,990	2,243
Toyota Corona 4-door	2,150	2,231
Beetle	1,899	2,109
Vega	2,091	2,091
Gremlin	1,999	2,040
Datsun 1200	1,736	1,971
Pinto	1.919	1,919
Toyota Corolla	1,798	1,863

SALES MOMENTUM

Officials of both Volkswagen and Nissan indicated they don't expect the changing price relationships with U.S. makes to kill off their sales momentum.

Nissan's Mr. Link said that despite the price increases he wouldn't change his sales projections for Datsun. He predicted sales of 260,000 cars and trucks in 1971, up 67% from 155,000 in 1970, and said 1972 sales of all Datsun vehicles would reach 325,000, up 25% from the 1971 projections. He estimated that Datsun would sell 500,000 cars and trucks in the U.S. annually by 1976.

Concerning other Volkswagen developments, Mr. Perkins said:

"I don't see an end to the Beetle in the U.S.," as has been widely rumored. "I think we can meet all the government standards through 1975," he added. But he did say that the Beetle might account for a smaller portion of Volkswagen's total U.S. volume in the years ahead as other models account for a bigger share. He said Volkswagen hasn't any plans to bring to the U.S. its water-cooled K–70, now sold in Europe, or to replace the Beetle with its experimental safety model. He said the Beetle will have an added collapsible steering column for 1972 models, which anticipates 1973 federal standards.

Volkswagen AG will show a profit next year, contrary to speculation in financial quarters. "We are making a profit and we'll continue to make a profit in Germany," he said. He said the parent company has been making "large investments" in safety and pollution research and development. "This has to hurt profit but is an investment in the future," he added.

Volkswagen has installed a more powerful, 74-horsepower engine in its station wagon bus for 1972, but Mr. Perkins said this change was needed for power to run popular options and to handle heavier loads campers put into buses—and not in response to criticism of auto critic Ralph Nader, who charges the bus is unsafely underpowered.

COMPARISON OF PRICES AFTER THE LATEST ROUND OF INCREASES

	Old	New
Datsun 1200 sedan	$1,874	$1,971
Datsun 510 2-door	2,130	2,243
Datsun 510 4-door	2,291	2,409
Volkswagen Super-Beetle	2,133	2,278
Volkswagen Beetle	1,978	2,109
VW Squareback	2,785	2,948
VW Station wagon bus	3,193	3,463
411 model 4-door	3,302	3,512

[From the Wall Street Journal, Oct. 22, 1971]

TOYOTA BOOSTING ITS PRICE AGAIN ON U.S.-SOLD CARS

(By a Wall Street Journal Staff, Reporter)

TORRANCE, CALIF.—Toyota Motor Sales U.S.A. Inc., the importer of the second-largest selling foreign car in the U.S., said it's 1972 Toyota prices would be an average of 8.9% higher than current quotas for 1971 models.

This will be the second time Toyota has raised its prices since President Nixon announced his new economic plan. Earlier, Toyota passed along to buyers the higher import levy on cars announced by Mr. Nixon Aug. 15. The pattern of the two rises conformed with that of Volkswagen of America Inc., and Nissan Motor Corp. U.S.A. which distributes Datsuns.

The Toyota increases, ranging from $163 to $249 on various models, reflect increased costs of production in Japan and the rise in value of the Japanese yen in relation to the dollar, according to Iwao Kodaira, executive vice president, Toyota Motor Sales.

Mr. Kodaira said the boosts comply with current rulings of the Cost of Living Council regarding imported products.

Toyota said its first increase ranged from 3.5% to 4%. So the latest price increase for Toyotas since President Nixon's economic program went into effect means the company's prices have gone up approximately 13%. Nissan's increases totaled 17%.

Toyota said 1972 models carrying the second price rise are being distributed to dealers in most parts of the U.S. They began arriving in the U.S. Oct. 1, Toyota said. Cars imported earlier aren't covered by the lastest increase.

The importer also announced price boosts for its three models of four-wheel-drive Land Cruiser vehicles ranging from $320.50 to $385.

However, the company didn't announce new prices for its Toyota half-ton truck and Crown car models. It said it would post these later.

Toyota said its Carina two-door sedan, a new model in the 1972 line, would be priced at $2,361.

[From the Wall Street Journal, Nov. 24, 1971]

TOYOTA U.S. SALES UNIT LIFTS 1972 MODEL PRICES $18–$81, AN AVERAGE 1.6 PERCENT—INCREASES, THE THIRD ROUND SINCE NIXON STARTED ECONOMIC PLAN, BLAMED ON HIGHER VALUE OF YEN

(By a Wall Street Journal Staff Reporter)

TORRANCE, CALIF.—Toyota Motor Sales U.S.A. Inc. said it raised the prices of its 1972 cars and trucks an average of 1.6%, effective yesterday.

The price increases, which range from $18 to $81, mark the third time Toyota has boosted its prices since President Nixon announced the new economic plan and the second time the Japanese auto maker has raised the prices on its 1972 models.

Toyota U.S.A. officials said the price increases are a result of a further rise in value of the Japanese yen against the dollar and higher production costs on some models. A Toyota U.S.A. spokesman said the increases were levied by the manufacturer in Japan and as such could be passed on under U.S. government rulings on prices of imported products.

This means that Toyota's popular Corona four-door sedan is priced at $2,512, up $362, or 16.8%, from the prefreeze price of $2,150.

Here's how the base price of the Corona compares with the other leading subcompacts:

Toyota Corona	$2, 512
VW Super Beetle	2, 278
Datsun 510	2, 243
Vega	2, 090
Pinto	2, 052
Cricket	1, 995
Colt	1, 993

Toyota also increased the prices of its four-wheel-drive Land Cruiser models $47 to $81 and set the price of its half-ton pickup truck at $2,392. The company hadn't announced 1972 prices on the half-ton truck.

COMPARISON OF PRICES AFTER THE LATEST ROUND OF INCREASES

	Old	New
Corolla 1200 2-door sedan	$2, 026	$2, 059
Carina 2-door sedan	2, 361	2, 383
Corona 4-door sedan	2, 453	2, 512
Land Cruiser, vinyl top	3, 331	3, 383
Celica 2-door coupe	2, 941	2, 998

[From the Automotive News, Dec. 20, 1971]

WITH DEATH OF EXCISE TAX—CAR PRICE CUT $113 TO $424

(By John K. Teahen Jr., assistant managing editor)

New-car prices came tumbling down last week following repeal of the federal excise tax.

The reductions ranged from $113 to $275 on Big Three autos other than Cadillac, Lincoln and Imperial. The three luxury lines posted cuts of $292 to $424.

And there was a saving of $606 awaiting the man who has been shopping for a Cadillac limousine.

The excise tax was 7 percent of the wholesale price of the car and factory-installed equipment. This led to a certain amount of confusion at the retail level before dealers had their new model-by-model price lists to work with.

For example, a national wire service moved a story advising buyers to deduct 7 percent from the window sticker to arrive at the new price. Learning of the story, a Ford Motor spokesman advised the wire service that a 5 percent reduction at retail would be more realistic.

The change was made but, because of the time factor, the 7 percent instruction probably was carried in a lot of newspapers.

Chrysler Corp. met this situation by providing dealers with a supply of supplementary labels to be pasted next to the federal sticker.

It pointed out that the prices shown on the sticker were those in effect before repeal of the tax and that refunds on vehicles in dealers' inventories as of repeal date are payable only to dealers.

The label added, "Our salesmen will be pleased to furnish you with the new lower manufacturer's suggested retail price of this vehicle and factory installed optional equipment."

Repeal Day (Dec. 10) was especially busy for Ford Motor. At 9 a.m., the company announced an average increase of 2.6 percent on cars, trucks and options. It averaged $90 on cars and was an implementation of the 2.9 percent hike that Ford had been granted by the federal Price Commission.

By mid-afternoon, Ford's new prices were dead as President Nixon signed the tax bill that wiped out the excise.

General Motors and Chrysler Corp. had boosted prices around the end of November in line with increases granted by the Price Commission. GM said its hikes average $96 per car; Chrysler said $95.

Upon excise repeal, each of the Big Three reduced prices from those in effect after the aforementioned increases. The cuts were greater than the boosts. And, since '72 introductory prices were frozen at '71 levels, virtually every domestic model is priced lower than it was last summer.

It's all rather confusing, but auto pricing was never intended to be an exercise in simplicity.

American Motors played it differently than the Big Three. AMC didn't use the 2.5 percent hike it was granted in November. When the excise was repealed, AMC raised its prices 2.5 percent, then deducted the excise.

It resulted in an average reduction of $61 on AMC cars, considerably less than the decreases announced by the Big Three. GM, for example. said its cuts averaged $191.

Excise repeal also cut equipment prices. Using the various Plymouth lines as an example, there were reductions of $10–$12 on automatic transmission, $5–$6 on power steering, $3.65 on power dis brakes, $3.50 on. AM radio and about $21 on air conditioning.

More price changes are coming. A rise is expected Jan. 1 when the new seat-belt systems become standard on all cars and the devaluation of the dollar will probably mean increasing for imports.

Following are the current prices of selected models and the reduction that resulted from the elimination of the excise figures are rounded off to the nearest dollar):

	Current price	Reduction
Subcompacts-Imports (2-door sedans):		
Pinto	$1, 930	$108
Cricket (4-dr.)	1, 953	109
Toyota Corolla 1200	1, 956	103
Gremlin	1, 999	41
Vega	2, 031	113
Colt	2, 049	115
Corolla 1600	2, 109	112
VW Super Beetle	2, 156	122
Compacts (2-door sedan, 6-cylinder):		
Maverick	2, 158	118
Hornet	2. 177	108
Comet	2, 193	123
Valiant	2, 260	123
Dart	2, 289	125
Nova	2, 319	133
Ventura II	2, 394	138
Specialty (2-door hardtop, 6-cylinder):		
Mustang	2, 698	150
Camaro	2, 698	154
Barracuda	2, 698	150
Javelin	2, 786	71
Challenger	2, 778	155
Firebird	2, 806	162
Intermediates (4-door sedan):		
Chevelle 6	2, 604	143
Torino 6	2, 608	136
Intermediates (4.door sedan)—Continued		
Satellite 6	$2, 678	$137
Montego 6	2, 696	143
Coronet 6	2, 721	140
Matador 6	2. 763	29
LeMans 6	2, 780	151
F–85 V–8	2, 921	160
Skylark V–8	2. 936	160
Standards (4-door sedan, V–8):		
Plymouth Fury III	3. 472	179
Dodge Polara Custom	3, 515	183
Ford Galaxie	3. 639	183
Chevrolet Impala	3, 658	192
Pontiac Catalina	3, 671	192
Mercury Monterey	3, 766	188
Ambassador SST	3, 864	60
Oldsmobile Delta	3, 898	203
Buick LeSabre	3, 908	204
Chrysler Newport Royal	4, 000	199
Cadillac deVille	6, 338	324
Imperial LeBaron	6, 727	341
Lincoln Continental	7, 250	357
Luxury Specialty:		
Grand Prix	4, 436	232
Riviera	5, 114	266
Thunderbird	5, 257	260
Toronado	5, 306	275
Eldorado	7, 195	369
Mark IV	8, 601	424

[From the Detroit News, Jan. 5, 1972]

Yen Revaluation Cited—Toyota Drops Plans To Cut U.S. Prices

Torrance, Calif.—(DJ)—Toyota Motor Sales U.S.A. Inc. said possible price reductions from the removal of the 10 percent import surcharge have been canceled out by the revaluation of the yen under the recently announced international monetary agreements.

Because of this, Toyota said its car prices in the United States won't be dropped below the level they reached Dec. 10 when the federal excise tax was repealed.

Toyota's lowest-price model, the Corolla 1200, will sell for $1,955, up substantially from its price of $1,798 before Aug. 15 but down from its peak price of $2,059 after the third price increase instituted since Aug. 15, to cover earlier yen revaluations, the import surcharge and increased costs.

Toyota said that unlike domestic manufacturers, it doesn't intend to raise prices to cover costs of new safety equipment which have been required since Jan. 1 and hopes to hold prices at current levels for the rest of the 1972 model year.

[From the Wall Street Journal, Jan. 6, 1972]

Imported Cars Have Lost Their Price Edge, but They Still Possess Competitive Clout

(*By a* Wall Street Journal *Staff Reporter*)

Detroit.—After almost five months of Phase 1 and 2 gyrations, the picture is beginning to clarify on auto prices to reveal that, while imported cars have lost some of their price attractiveness, they're still competitive.

The impression consumers have of imported car prices will be a major factor in determining Detroit's 1972 fortunes. The auto men here are confident that the small-car battle will take a decided turn in their favor in 1972, after six humiliating years during which importers relentlessly increased their share of the U.S. market. In 1971, in fact, many analysts here believe foreign cars captured all the overall growth there was in the total car market. But in 1972, the experts expect the import share to hold steady or shrink a bit.

There's no denying in Detroit that prices hold the key to the import battle, which is being fought at the small-car end of the market. And, at the moment, the race between the most popular imports and Detroit's minicars—General Motors' Vega, Ford Motor Co.'s Pinto, and American Motors Corp.'s Gremlin—looks like a price standoff.

Before Aug. 15, of course, the importers had a clear edge. Within the import "Big Three"—Volkswagen, Toyota and Datsun—there were several popular models priced less than the lowest U.S. minicar, the Pinto, and only one popular model priced higher than the most expensive of the U.S. entries, the Vega.

But the net effect of increases and cuts, tax repeals and surcharges, has pushed up the base tags on key imports 5% to 11%, while the Gremlin price was emerged unchanged, the Vega price has dropped 2.9% and the Pinto's base price has gone up less than 1%.

As a result, there is only one popular foreign model priced below the Pinto, while several of the imports cost more than the Vega. Here's how they compare:

	Prefreeze	Now	Change
Toyota Corona 4-door	$2,150	$2,385	+$235
W Superbeetle	2,049	2,159	+110
Datsun 510 2-door	1,990	2,121	131
Vega sedan	2,090	2,030	−60
Gremlin	1,999	1,999	----------
VW Beetle	1,899	1,999	+100
Toyota Corolla 1200	1,798	1,955	+157
Pinto	1,919	1,930	+11
Datsun 1200 sedan	1,736	1,863	+127

Volkswagen, Toyota and Datsun officials announced their new prices this week. The quotes are about the same as those arrived at when the 7% excise tax was repealed. The importers were able to pass along little, if any, of the benefits of the elimination of the 6½% import surcharge, because of the upward revaluation of the manufacturers' home currencies and other new costs. In addition, the importers said the latest prices reflect costs of a new seat belt warning system that has been required by government safety rules since Jan. 1. Domestic manufacturers plan to increase prices to cover the cost of the warning system.

PRICE SHAKEDOWN

Though the newest quotes have cost the importers their old clear price advantage over Detroit, the rates are far more competitive than the even higher prices of November and December, before the excise tax was repealed and the surcharge removed. And spokesmen for all three big importers made it clear that they hoped to hold the price line for the rest of the model year.

Iwao Kodaira, executive vice president of Toyota Motor Sales USA, said Toyota hoped to hold prices at the present level and is confident that its "greater emphasis on the quality of its products" will keep sales strong.

Yutaka Katalyama, president of Nissan Motor Corp. in USA, said it expected neither cuts nor increases in the new set of Datsun car prices. And a spokesman for Volkswagen said that company also hoped to hold the price line.

Meanwhile, the importers are making strong efforts to remind consumers that the price roller coaster has stopped and their quotes are back in the bargain range. Volkswagen's new television ads feature the legend "under $2,000 again" splashed across the screen. And Toyota has been running ads in major newspapers which say, "under $1,956" next to a picture of the $1,955 Corolla. If the domestic minicar prices rise again due to seat belt warning system costs or other future boosts, and the imports meet their goal of holding the price line, the importers may well step up the price advertising offensive.

POST-FREEZE LEVELS

Domestic car prices are lower than they were before Aug. 15, because of the recent repeal of the 7% excise tax on new cars. However, contrary to the impression of many car buyers and suggestions from Detroit, car prices are higher than the effective levels during the freeze.

The reason: Most transactions during the freeze anticipated the excise tax repeal. Many buyers of American Motors cars actually got the refunds at the time, in anticipation of Congress' action in December. Buyers of other cars were promised refunds, which they are receiving. Since the freeze ended, the auto makers have raised prices 2% to 3%; thus, effective prices during Phase 2, while below pre-Aug. 15 levels, have generally gone up that much because the dealers' price has gone up.

For instance, the pre-freeze price of a basic Chevrolet Impala four-door eight-cylinder model was $3,742. That also was the frozen price. But a buyer purchasing one in September could begin bargaining from a price of $3,555—the actual sticker price less the excise tax which he counted on getting back retroactively. The January shopper, looking at the same car, begins figuring from a sticker price of $3,658, down $84 from the pre-freeze sticker price, but $103 higher than the freeze buyer's effective sticker price, after taking the excise tax refund into account.

Thus, while auto companies have been touting the new car prices and excise tax "cuts," many consumers have been reacting indifferently, apparently because they have considered the excise tax repeal as a reality since it was first proposed by President Nixon. In fact, the only car price changes that were news to consumers were the increases the companies made at the outset of Phase 2.

[From the Wall Street Journal, Jan. 24, 1972]

DATSUN PRICES RAISED AVERAGE OF $325 A CAR FROM 1971 MODEL YEAR

(*By a* WALL STREET JOURNAL *Staff Reporter*)

GARDENA, CALIF.—Nissan Motor Corp. in U.S.A., importer of Datsun cars and trucks, issued its third 1972 model price list, and the company said it hoped it will be the last such list for the model year. Prices of Datsuns, affected by the international monetary situation and excise tax repeal, are, according to the list, an average of about $325 a car higher than in the 1971 model year.

The prices are higher than those established after removal of the excise tax but before adjustment for surcharge and currency changes. Robert Link, Nissan vice president, sales, said the revaluation of the yen and the cost of new government-required safety equipment far out-weighed savings from repeal of the surcharge.

Yutaka Katayama, president of the company, said this month that prices would remain at about the level reached after removal of the excise tax but before surcharge and currency adjustments. However, the company explained that Mr. Katayama wasn't referring to the suggested retail price, which has indeed risen, but to the customer's final price.

Mr. Link explained that a special freight diversion charge, imposed during the first West Coast dock strike, had been removed, offsetting most of the latest increase in suggested retail price, and leaving the customers' final cost at about the level it had reached with the lower suggested retail price plus the special freight charge.

The new prices make the popular Datsun 510 two-door-sedan more costly, at $2,306, than any of the best-selling imports except the Toyota Corona. The price of the Datsun 1200 sedan, the only popular foreign car previously priced below the Ford Pinto, has been raised to $1,976 from $1,863.

The Pinto's last reported suggested retail price was $1,930, but Ford is expected to raise that soon to compensate for the cost of new safety equipment. Despite the planned increase, there's now a chance the Pinto could wind up at a lower price than any of the most popular models sold by the "Big Three" importers, Volkswagen, Toyota and Datsun.

Here are the latest prices for Datsun models, excluding dealer preparation, normal freight costs and taxes:

[From the Wall Street Journal, Nov. 20, 1972]

TOYOTA TO LIFT '73 MODEL PRICES AVERAGE OF $59—BOOSTS WILL RANGE BETWEEN $42 AND $155, BUT FIRM IS REMOVING PREPARATION FEE; COMPETITORS ACTED EARLIER

(*By a* WALL STREET JOURNAL *Staff Reporter*)

DETROIT.—Toyota Motor Sales, U.S.A., importer of Toyota cars and trucks to the U.S., said prices of its 1973 models will be raised an average of $59 a vehicle from 1972 model levels.

The company, second only to Volkswagen as a seller of foreign cars in the U.S., said the new prices on its 17 models of cars, trucks and utility vehicles will be up between $42 and $155 from comparable prices last year.

However, Norman Lean, national sales manager for Toyota, said at a news conference that at the same time it is instituting the $59 average boost, the company is removing a $50-a-car dealer preparation fee that formerly was charged in addition to the suggested retail price.

The car price increases range from $42 to $71, while the Toyota truck will cost about $50 more and the company's utility recreational vehicle will carry a $155 higher price tag. The company said the new prices are within federal guidelines, but weren't submitted to the Price Commission for approval.

ONE MODEL BELOW

Under the new price structure, Toyota managed to keep one model below the magic $2,000 level—the Corolla 1200, which will cost $1,998, up from $1,956. Before President Nixon imposed his new economic plan last August and currencies were realigned last December, many imported cars were below the $2,000 barrier.

Toyota's major import competitors have already announced their own price moves. Volkswagen of America raised prices between $30 and $110. Nissan Motor Corp. in U.S.A., importer of Datsun, the nation's third largest selling foreign car, kept its prices at 1972 levels, but at the same time replaced several of its biggest selling models with new and more expensive offerings costing about $200 more than the cars they replaced. Both companies also maintain one model each just below the $2,000 level.

The two leading U.S. subcompacts cars, Ford Motor Co.'s Pinto and General Motors Corp.'s Vega, sell for $1,960 and $2,051, respectively.

EXPECTS TO SELL 300,000 CARS

Mr. Lean said Toyota expects to sell about 300,000 cars and 25,000 trucks in the U.S. in 1973, up from about 295,000 cars and 20,000 trucks this year and 292,000 cars and 17,000 trucks in 1971.

He also disclosed the company plans to offer a new truck-and-camper package on a test basis in the Los Angeles area next year. The camper portion of the unit, he said, will be supplied by Chinook Mobilodge Inc., of Yakima, Wash., and will be built on a specially imported longer wheelbase version of Toyota's Hi-Lux minitruck. About 2,000 of the units will be offered for sale next year, he said, at a price of from $4,000 to $4,400 each.

It hasn't been determined yet, he said, whether Toyota or its dealers will purchase the camper portion for Chinook, he said. Therefore, he added, he couldn't estimate the value of the project to Chinook.

COURIER

Model	Model availability	Dealers cost	Suggested retail
Courier pickup (Standard equipment includes 4 cylinders, 1800 cm.^{3} engine, 4-speed transmission, 6.00-14 6Pr whitewall tires, lighter, bright front bumper, hubcaps and grille, bench seat.)		$1,934.44	$2,222.00
Accessories:			
Bumper, rear step	All	43.50	50.00
Camper shell package:			
Standard	do	234.90	270.00
Deluxe	do	256.65	295.00
Radio, AM pushbutton	do	59.16	68.00

CRICKET

Model	Model availability	Dealers cost	Suggested retail
4B41—Sedan, 4-door		$1,730.70	1,993.00
Accessories:			
4C41—Decor group	All	70.95	83.85
H51—Air-conditioning	do	290.00	345.55
EJ3—Engine, twin carb	All (decor group required)	52.60	62.20
R11—Radio, AM	All	51.45	61.30
W36—Tires, whitewall	do	24.75	29.34
D34—Transmission, automatic	do	162.05	191.40

DATSUN

Model	All coasts	
	Dealers' cost	Suggested retail
1200—Sedan:		
Standard transmission	$1,640	$2,026
Automatic transmission	1,801	2,206
1200—Coupe:		
Standard transmission	1,759	2,166
Automatic transmission	1,919	2,346
PL510—Sedan:		
2-door, standard transmission	1,899	2,356
2 door, automatic transmission	2,071	2,546
240Z—Coupe:		
Standard transmission	3,325	4,181
Automatic transmission	3,525	4,401
PL610:		
Sedan:		
Standard transmission	2,215	2,706
Automatic transmission	2,387	2,896
Hardtop:		
Standard transmission	2,298	2,806
Automatic transmission	2,471	2,996
Wagon:		
Standard transmission	2,340	2,856
Automatic transmission	2,513	3,046
PL620:		
Pickup (¼ ton):		
Standard transmission	1,887	2,286
Automatic transmission	2,094	2,496

Note: Factory suggested dealer preparation and conditioning included in retail price: 240Z, $75; all others, $50.

Standard equipment: All except PL620, reclining bucket seats, vinyl upholstery, whitewall tires, front disc brakes, heater w/defroster, seat belts, outside mirror, 4-speed all-synchromesh transmission. 240Z has in addition, radio, tachometer, electric clock, console compartment, lighter. PL510 has in addition, fresh air system, deluxe wheel covers, backup lights, engine compartment and courtesy lights, locking gas cap, undercoating. 610 has in addition, full carpet, assist handles, ash trays, trunk or cargo floor mat, special steering wheel, coin holder, large glove box, ash tray, cigarette lighter lights, tinted glass.

FIAT

Model	East coast		West coast	
	Dealers cost	Suggested retail	Dealers cost	Suggested retail
850—Spider	$2,036.21	$2,494.56	$2,070.91	$2,537.16
128—Sedan, 2-door	1,701.62	2,018.62	1,701.62	2,018.62
128—Sedan, 4-door	1,791.18	2,125.02	1,791.18	2,125.02
128—Station wagon	1,904.74	2,259.84	1,904.74	2,259.84
124—Special sedan	1,960.24	2,385.59	1,985.14	2,417.94
124—Station wagon	2,144.28	2,622.10	2,164.86	2,648.46
124—Coupe, sport	2,899.17	3,563.55	2,924.29	3,595.86
124—Spider, sport	3,089.63	3,797.92	3,092.27	3,807.87

Note: Preparation and handling (average): $50.

Standard equipment—Safety equipment, plus: arm rests, heater, undercoating, 4-speed transmission (124 spider and sport coupe have 5-speed), bucket seats, courtesy lights, engine compartment lights, tool kit, vinyl uphosltery, coat hangers (executive 850 roadster). In addition, 124 series has: emergency brake light; carpeting and tachometer on roadster and coupe; dual horns and map light on sedan and wagon. 850 series also has: tachometer (executive sedan); dual horns; map light; wood-grain dash and trunk light. 124 sport coupe has tinted glass. 124 and 128 wagons have luggage rack.

Accessories and equipment	Model availability	Dealers cost	Suggested retail
Accessories: Transmission, automatic	124 sedan, wagon	$175.48	$206.04

Senator HARTKE. My contention is very simply that you are not going to have international monetary reform nor a reciprocal arrangement on nontariff barriers until the United States stands up and says, "we are not going to be a free and open market for the rest of the world while they close their markets to us."

Mr. MURPHY. They should not be permitted to close their markets to us. We should have the access to those markets on the same basis they have access to our markets.

Senator HARTKE. On exports, you say you could export on a competitive basis to developing countries. Would that change your investment overseas to a very great extent?

Mr. MURPHY. If the developing countries did not have——

Senator HARTKE. Can you give me a specific?

Mr. MURPHY. Well, in countries such as Argentina and Brazil, their local content requirements are such that we have to manufacture in those countries. We have no choice if we are going to participate in that market.

Senator HARTKE. If you did not have local content requirements you still could compete with them in production based in the United States?

Mr. MURPHY. Oh, yes, sir. The size of the market is such that their economies of scale would not permit them to make as economically as we could from here.

Senator HARTKE. Which again demonstrates very conclusively that if you talk about retaliation to the extent that they retaliate against us, we ought to be retaliating against them now for their nonfair trade procedures.

Mr. MURPHY. I think we, in the United States, traditionally have sponsored the ideal of everybody in the world hopefully progressing. In their judgment, in today's atmosphere, the only way they can make the industrial-type progress that they want is to have the local content type of thing so that they can develop an automobile capability.

Senator HARTKE. Is that not exactly what we did with Japan after World War II and with Germany and we exported our technology to them?

Mr. MURPHY. We certainly have——

Senator HARTKE. Is that not right?

Mr. MURPHY. After the war we felt and it seemed important to the United States that those countries ravaged by war were given an opportunity to come back. Otherwise, they, in effect, were going to be a burden, a burden on the world.

Senator HARTKE. Now you are saying the same thing about Argentina and Brazil. They are going to be our burden and a burden on the world. I do not mind being gracious and humanitarian but when you come to the place where you are taking the last pint of blood in the body I think there comes a time when somebody else ought to offer themselves to be the donor.

Mr. MURPHY. I agree. Certainly, when they obtain the competitiveness and the development stage as certainly Japan has done then they should be willing to compete on a fair and equitable basis with us and as countries such as Brazil obtain their potential——

Senator HARTKE. One more question. On adjustment assistance, we all know that is sort of a euphemism for welfare and unemployment compensation, right?

Mr. MURPHY. You can characterize it as such.

Senator HARTKE. That is my characterization. It is my understanding that the administration intends to propose only a 3-year adjustment assistance program, on the basis that they intend to increase unemployment compensation benefits and to up the welfare payments. If their answer is to have assistance efforts for 3 years, would you be in favor of that type of economic adjustment assistance?

Mr. MURPHY. I think the economic adjustment assistance deserves some very careful study. We certainly do not want to have a protective device. We do not want a reward for inefficiency or a shelter for inefficiency. We have to be very careful that we do not build into the system something that is completely uneconomic. I do think when because of circumstances beyond the control of the business and the people working for it, something happens to dislocate, for whatever reason, whether it is foreign competition or some change in the technology in this country, there should be provision made in a period of time for an adjustment for a retraining, relocation so that those people can be productively employed in another area. This has been the history of our country.

Senator HARTKE. I understand that but would you be in favor of that type of program if it meant an increase in unemployment benefits which would mean an increase in your rates?

Mr. MURPHY. This is going to have to be paid for and I would say it is going to have to be the judgment of the Congress after a very careful study of this matter to be sure that we are getting the best for the least money and the most protection. After all, we all deplore the idea that people are out of work and cannot be gainfully employed. We have to be sure that those people are brought back into the productive work force. That is the way we can make progress in this country. It is the way we have in the past.

Senator HARTKE. Mr. Chairman, I want to thank you for giving me this chance. I am aware of the comments made on the automobile agreement and it is my understanding that they contend the Government did this and they are living up to it. If the Government changes this it would mean they would not object to it.

Senator RIBICOFF. I have some more questions and you can ask more after the others.

Mr. MURPHY. May I comment on the Senator's comment? The Canadian Trade Agreement was arrived at by the United States and Canadian Governments after negotiation. We did not initiate it nor did we urge its adoption. We have tried to work and make it work. If the countries in their negotiations were to make changes, then we would have to—in keeping with our posture—we would have to do our best to make it work. We would hope that whatever was done would be in the best interests of the citizens and the national welfare of the country.

Senator RIBICOFF. Senator Packwood.

Senator PACKWOOD. It is my understanding that the Japanese offered American companies 100-percent ownership of retail outlets several years ago for marketing; is that true or not?

Mr. MURPHY. I am not aware of that. We do have market outlets in Japan. We have dealers representing us in Japan today.

Senator PACKWOOD. What good does that do you if you do not sell any cars?

Mr. MURPHY. We do sell some cars, not as many as we would like. We want to sell more cars here in the United States and in every overseas market that we represent.

Senator PACKWOOD. A far as you know, the Japanese did not offer to sell us the entire retail outlet for American cars and let us own it and run it.

Mr. MURPHY. We prefer to operate through retail dealers that are independent merchants. That is true in the United States and every place where we operate. We feel that is the best way to penetrate the local market, with a merchant that knows the market, knows the people in that market, is part of that society, and we have operated very successfully here at home and that is the way we operate to the best of our ability where we represent——

Senator PACKWOOD. I understand that. Maybe I phrased the question wrong. Would they be willing to allow you to finance dealerships there with the right of an owner to purchase them to market your cars that might be individually Japanese-owned but would be outside the normal Japanese automotive distribution system to avoid the internal markup?

Mr. MURPHY. I do not know that they have any restrictions on the type of thing we do normally in this country.

Senator PACKWOOD. When you speak of the automotive industry in Canada does the term include all types of service parts?

Mr. MURPHY. No. It does not include all the service parts that move back and forth.

Senator PACKWOOD. We had a $100 million surplus last year.

Mr. MURPHY. That is the best that we can estimate at this point, based on preliminary Department of Commerce figures.

Senator PACKWOOD. The fifth point of your statement on the emphasis on U.S. exports, I wonder if you would be willing to comment on the success or failure of the DISC's that we allow to be set up and which have not seemed to have worked too well to date and why not.

Mr. MURPHY. Well, I think it is part of it. Perhaps an educational program is needed to be sure that everyone in all the companies in this country understands the opportunities that may be present for them in the export markets.

Now, it is going to take some time, I would think, to effectively bring this to bear. I think the DISC legislation was a benefit to an exporter from this country and I think it has proven effective, not as dramatically, let us say, as we would like to see, but it is very rare that we are able to develop something that immediately impacts. International trade is a very complex mechanism but I think anything that we can do to make industry here just as competitive as possible in looking at the export opportunity should be done. And that is the way I look at the DISC. And if all companies have not been able to take advantage of it, then I think we ought to mount an educational campaign to be sure that they understand that there is opportunity.

Senator PACKWOOD. You indicated you have increased your employment in the United States 20 percent from 1960 to 1972 roughly, as I look at your figures, about 110,000 jobs. How much has it increased overseas?

Mr. MURPHY. Over that same period?

Senator PACKWOOD. Same period.

Mr. MURPHY. I think about 60,000, if I recall the figures correctly, Senator.

Senator PACKWOOD. That is fine. I want an absolute comparison. We are talking about 60,000 compared to 110.000, not counting Canada. This is overseas.

Mr. MURPHY. This is overseas. Here I have the figures: We went from 117,000 in 1960 to 182,000 last year, about 65,000 over that same period.

Senator PACKWOOD. I have no other questions.

Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Bennett.

Senator BENNETT. I am just interested in pursuing the Canadian situation a little bit. Based on the question and answer that just passed between you and Senator Packwood, do I understand that the difference between the figure that the Department of Commerce shows of a trade deficit of $1.4 billion and your statement that there is a trade surplus of $100 million is that you are talking about different things and that you are talking about the exchange of completed automobiles while the Department of Commerce is talking about the exchange of all automotive components and automobiles?

Mr. MURPHY. Both of these series that are being referred to, Senator, are Government figures.

Senator BENNETT. That is right.

Mr. MURPHY. As I understand it, there has been some discrepancy in it and it is not due to that factor. There is a difference in the figures that develop from that, but essentially the figures that we are talking about, the $100 million refers to automotive trade and the parts portion of it would not significantly alter that.

Part of the difference is due to the valuation that they apply for the other set of statistics on the movement across the border. Ours are developed on the basis of the dollars and are in consonance with the figures developed by the Commerce Department that we referred to as being the $100 million difference.

Senator BENNETT. We sit here in this committee and we have got to have something we can depend on, and I think if you are representing a major company, the automobile industry, cannot give us definitive answers to why one set of figures is a $100 million surplus and the other set of figures is a $1.4 billion deficit, I do not know where to turn for the information. What is the difference?

Mr. MURPHY. To the best of our ability, the $100 million figure is the one that we feel is representative of the automotive trade between the two countries; $100 million in favor of the United States.

Senator BENNETT. I am trying to get at why should those two figures should be that far apart? What is the essence of the discrepancy?

Mr. MURPHY. Obviously, there should not be that difference and there should not be that discrepancy in the figures. I think the problem is that they had a measurement that they were applying in the balance-of-payments figures which I will call the one that shows the deficit of $1.4 billion. They had a method of developing figures at the time the trade agreement was initiated that develops a discrepancy because of the way they apply the valuation when a car moves from the United States into Canada. They apply the Canadian value when the car moves across the border from Canada to the United States. They use the U.S. value when it moves across the border from the United States to Canada.

Senator BENNETT. What is the total gross value of the trade?

Mr. MURPHY. I think that is in the supplementary statement that we filed updating the previous statement that had been submitted by us to hearings a year ago. I think the total last year was on the order of $9 billion, exports to Canada being about $4.6 billion and imports from Canada about just under $4½ billion.

Senator BENNETT. Take a round figure of $5 billion representing the trade moving each way. A discrepancy of $1,450 million, which is contained in the report to the President on the operations of the act, that is, 28 percent of the $5 billion. So I cannot think that the valuation differences represent 28 percent of the value of the material sold.

Mr. MURPHY. They represent about 15 percent as we understand it of the—can represent up to 15 percent of that discrepancy.

Now, there was a task force report. We have had a lot of difficulty at the Government level between Canada and the United States and they did appoint a group to reconcile this bilateral trade data and there was a release in January of 1973, from the Assistant Secretary of Commerce for Economic Affairs, announcing they had reconciled for 1970 some of the differences and at that time the United States showed a $2 billion figure and Canada showed $1 billion. I am talking about the total trade figure. They finally agreed on a figure of $1.4 billion.

The imports statistics in the balance of payments as we understand it, are overstated because the U.S. Customs Bureau by law assesses the value for customs purposes as the wholesale market value in the country of origin, in other words, in Canada where the prices are higher, and in fact the intercompany transfers under the agreement, prices are about 15 percent below that. We disclose both prices on the invoices and in the one set of statistics they use the higher value and in the other set they use the dollars actually exchanged.

Senator BENNETT. Are you saying our deficit is overstated by this amount, our actual deficit?

Mr. MURPHY. We are saying by our examination of the automotive trade statistics the ones that we are most familiar with, that surplus of $100 million is representative of the movement of the automotive trade between the two countries.

Senator BENNETT. Even with a 15 percent variation you cannot come down from $1.4 billion down to $100 million surplus. You cannot develop a difference of more than a billion and a half dollars.

Mr. MURPHY. As I indicated, Senator, they also have had this reconciliation problem between the two countries and they have reconciled for the year 1970 and I imagine they will be looking at the other figures for the ensuing years, where they developed a discrepancy of the order of a billion dollars. Now, this other thing may be part of that also. But I am not expert enough in the compilation of the figures on both sides of the border, two sets of statistics that the U.S. Government generated on this, to really say whether the overall statistics are approximations or not. I do know from our tests that have been made in our own case that for the automotive trade portion of it we are satisfied that the surplus of $100 million that is indicated for the year 1972 is an accurate representation.

Senator BENNETT. Now, when you are talking about the phrase automotive trade, are you limiting that to intercompany transfers between Canadian affiliates and American home—American basic companies?

Mr. MURPHY. No. The figures that are referred to are the total automotive trade, and the preponderance of that is between affiliates of the U.S. companies and their U.S. parents.

Senator BENNETT. Then I assume you are saying that no American dealer can sell to Canada so that there is no real business done except between affiliates, except between intercompany affiliates.

Mr. MURPHY. That has to be the bulk of it; yes, sir.

Senator BENNETT. The bulk of it. Does it not have to be all of it?

Mr. MURPHY. Substantially all of it. There are some parts in that that would flow back and forth, that would not be related to a manufacturer necessarily.

Senator BENNETT. And I imagine a dealer on the border might make a sale to a customer who lived across the border.

Mr. MURPHY. There could be cases of that kind, Senator. As part of the trade agreement, of course, the price differential between the two countries is being narrowed. It has been narrowed substantially over the period of time that has elapsed so far and we fully intend and are committed to narrow that difference on an ongoing basis, but there are higher costs in Canada for distribution, for warranty, because of the severe weather conditions up there, and also I think we have to recognize their product mix in Canada is somewhat less favorable than it is in the United States.

Senator RIBICOFF. Senator Bennett, you raise a very pertinent point. I am going to request Mr. Best to ask the Commerce Department for a clarification of the points you raised. The committee should have that and I think the Commerce Department ought to give it to us. I hope Mr. Best will see to it that we have the answer.

[The Department of Commerce subsequently supplied the following additional information:]

U.S. Department of Commerce,
Office of the Secretary,
Washington, D.C.

Memorandum for: Robert A. Best, Professional staff member, Committee on Finance, U.S. Senate.
From: George J. Pantos, Deputy Under Secretary, for Legislative Affairs.
Subject: United States-Canadian automotive trade statistics.

Trade figures for the United States-Canadian automotive trade as shown on page 16 of the *Sixth Annual Report to the President on the Operation of the Automotive Products Trade Act of 1965* (6th APTA Report) show a deficit of $197 million for 1971 while the figures on page 137 in the Addendum, added by the Committee, and based on published Bureau of the Census data, show a deficit of $1,375 million. Data for the year 1972 (most recent available) show a deficit of $99 million or a deficit of $1,110.0 million on a comparative basis. The data on page 16 were compiled by the Bureau of Competitive Assessment and Business Policy (BCABP) of this Department, while the data in the Addendum were compiled by the Tariff Commission, based on this Department's Bureau of the Census data.

IMPORTS

The Bureau of the Census publishes monthly statistics on quantity and value of imports of motor vehicles from Canada. These are constructed wholesale values prepared by the Bureau of Customs based on data shown on import declarations filed by importers. Motor vehicle trade between the U. S. and Canada is almost entirely between the parent company and a subsidiary and the actual transaction values are from 15 to 20 percent below wholesale values. For the purpose of assigning import duties, the Bureau of Customs constructs wholesale values for the transactions. These constructed values with the duties charged are recorded on the import declarations and provided to the Bureau of the Census for compilation and publication monthly.

To assess the impact of the Automotive Agreement with Canada and prepare a required annual report on the operation of the Automotive Products Trade Act of 1965, the BCABP uses the original transaction values as a reflection of the actual magnitude of automotive trade between the U.S. and Canada. These data as shown on the company import declaration are tabluated monthly by the Bureau of the Census and forwarded to BCABP. A copy of the report for the month of January is attached. The Bureau of the Census also publishes the transaction values quarterly in a special announcement, in the FT–135, *U.S. Imports General and Consumption, Schedule A Commodity by Country.*

EXPORTS

U.S. export data as published by the Bureau of the Census are not shown in the same amount of detail as are U.S. import statistics. Also, exports are by product classification, not by end use. For these reasons, it is not possible to measure separately the total U.S. trade in automotive parts. For example, fittings for copper pipe if used for automotive assembly are identified in the United States import figures under TSUSA, Code 613.16, and include *only* automotive fittings imported from Canada. The Schedule B *export* classification for similar fittings (Code 682.26) *does not* separate automotive fittings from all other fittings of that type. Therefore, export product coverage cannot be made comparable to import product coverage, and an accurate measure of the difference in trade between imports and exports cannot be made. However, Canadian import classifications are comparable in coverage to U.S. import classifications and the Canadian imports of motor vehicles from the U.S. are valued at the transaction level. Therefore, BCABP uses the Canadian import figures as a measure of U.S. exports.

In summary, the values of U.S. imports are tabulated by the Bureau of the Census at the transaction level and the wholesale level. BCABP uses the original transaction values to reflect the magnitude of U.S. automotive imports. U.S. export statistics are not comparable with U.S. import statistics. Canadian import statistics are comparable in coverage and value to U.S. imports, therefore, Canadian import statistics are used to reflect U.S. exports. For the foregoing reasons we believe that the BCABP figures on automotive trade with Canada are an accurate representation of the actual movement of goods under the U.S.-Canadian Automotive Agreement.

This method of computation has been used for three years. Prior to its use it was discussed with and approved by STR and the Departments of State, Treasury, and Labor.

If further clarification is desired we would be happy to meet with your staff or any other group to discuss the figures.

Attachment.

U.S. IMPORTS FOR CONSUMPTION OF MOTOR VEHICLES AND CHASSIS FROM CANADA UNDER APTA SHOWING "ENTERED" VALUE AND "INVOICE OR COMPANY TRANSFER" VALUE BY TSUSA NUMBER (TSUSA NUMBERS 692.0300, 692,1120, AND 692.2100) JANUARY 1973

TSUSA number and description	Totals for import entries for which both entered value and transfer value were furnished (a)	Totals from IM 145 (b)	Difference	Percent (a)/(b)
692.0300, automobile trucks valued at $1,000 or more:				
Net quantity (number)	11,637	11,725	88	99.2
Entered value [1]	$36,131,221	$36,707,915	$576,694	98.4
Transfer value	$26,977,707			
Net additions: Amount	$9,153,514			
Percent of entered value	25.3			
692.1120, new 4-wheeled passenger automobiles:				
Net quantity (number) [1]	80,571	80,583	12	99.9
Entered value [1]	$253,383,187	$253,410,309	$27,122	99.9
Transfer value	$204,451,803			
Net additions: Amount	$48,931,384			
Percent of entered value	19.3			
692.2100, chassis for automobile trucks and buses:				
Net quantity (number) [1]	9,622	9,862	240	97.6
Entered value [1]	$31,973,359	$35,689,765	$3,716,406	89.6
Transfer value	$27,261,457			
Net additions: Amount	$4,711,902			
Percent of entered value	14.7			
Total:				
Net quantity (number)	101,830	102,170	340	99.7
Entered value	$321,487,767	$325,807,989	$4,320,222	98.7
Transfer value	$258,690,967			
Net additions: Amount	$62,796,800			
Percent of entered value	19.5			

[1] Includes correction not reflected in January IM 145.

Source: Foreign Trade Division, Bureau of the Census.

Senator BENNETT. I think this becomes very important, because this is an issue that we face all the time, the question of the balance-of-payments deficit vis-a-vis the automobile trade with Canada.

When this arrangement was made, it is my understanding that the Canadians agreed, that over time they would eliminate the differential in duty. Do you have any indication that the Government in Canada is moving to eliminate the differential in duty?

Mr. MURPHY. There is no duty on cars manufactured by a Canadian manufacturer moving into the United States or moving into Canada.

Senator BENNETT. But isn't there a duty on an American car sold in Canada, 15 percent?

Mr. MURPHY. No, sir. Not if it is manufactured by us in the United States and shipped into Canada. The duty does not apply.

Senator BENNETT. But if a Canadian individual buys a car in the United States he pays a 15-percent duty.

Mr. MURPHY. That is correct.

Senator BENNETT. What happens if an American individual buys a car in Canada? How much duty does he pay?

Mr. MURPHY. He is free to buy the car in Canada.

Senator BENNETT. So there is a 15-percent differential, but again you are telling us that most of the Canadian automotive trade is intercompany, interbranch trade.

Mr. MURPHY. That was the term under the agreement as was negotiated by the respective governments, that the trade would be duty-free when it moved between manufacturers on either side of the border.

Senator BENNETT. I think we need to dig very deeply into this whole situation.

I have no further questions.

Senator RIBICOFF. If I may just comment further on what Senator Bennett has talked about. As one who violently opposed the Canadian-American automobile agreement, I anticipated what was going to happen and which, in fact, has happened. I think the figures, your own figures. indicate that in 1964—we had a net favorable balance of 4,000 units, which turned into an unfavorable balance of 447,000 units in 1972. This is the net loss to the United States—447,000 units from Canada. I think what has happened has been sort of blurred here. What took place is that the major automobile companies, and maybe General Motors could give us their figures, started to manufacture their small mass-produced cars in Canada, exporting them back to the United States, where the more expensive cars, which were smaller units and smaller volume were manufactured in the United States for export to Canada. So the Fords, the Chevrolets, and the Plymouths were being manufactured in Canada and exported back to the United States. The Cadillacs, the Oldsmobiles, and the Lincolns were being manufactured in the United States and exported to Canada. So that gave a huge differential that no one planned on.

Of course, what also has happened is, once you get the large volume of automobiles being manufactured in Canada, the various parts manufacturers who supply the major automobile companies then built plants in Canada to produce the parts that went into the large volume of automobiles. This has helped cause us to have a net unfavorable trade balance with Canada of about $2½ billion at the present time.

Generally, which cars does General Motors manufacture in Canada for the American-Canadian market?

Mr. MURPHY. At the present time, we are manufacturing what we call the regular sized Chevrolet.

Senator RIBICOFF. That is your big volume item, though, is it not?

Mr. MURPHY. It is a big volume, and we also manufacture some Chevelles, the Chevrolet intermediates, and we have just started assembly of the Vega in Canada.

I want to emphasize that the units, where we show units coming over here, that is not representative of the total value contained in it. It does not mean the total value of that car coming in was Canadian content. We send many of the components from the United States to Canada and they are assembled into the complete vehicle.

In the case of the Vega, for example, practically all of our components are built here in the United States. They are shipped to Canada for assembly, in that assembly plant which is located in St. Therese and that serves the Canadian market and they do ship some units back in here. That just started.

Senator Ribicoff. I am not blaming General Motors or Ford or Chrysler. These were matters of policy between the United States and Canadian Governments. You did not negotiate the agreement. A situation developed and you took advantage of it because it was there. But there certainly is no justification for the Canadians charging a 15-percent import tax on American automobiles going to Canada when we are not charging a similar charge for American automobiles made in Canada and shipped back to the United States. There is also an embargo on used cars which is wrong.

I believe that almost every member of the Finance Committee is very unhappy about the Canadian-American automobile agreement. This is something that the United States is going to look into very carefully, because next to Japan, our most unfavorable trade balance is with Canada.

Senator Bennett. May I have just another comment?

Senator Ribicoff. Certainly.

Senator Bennett. I cannot believe that the Federal Government, out of the blue, with no pressure—maybe that is too strong a word, but with no urging from the American automobile industry, conceived this Canadian automobile agreement. I think the motivation for the agreement came from the American manufacturers. Do you agree with me?

Mr. Murphy. No, sir. I cannot.

Senator Bennett. Did you oppose it?

Mr. Murphy. No, sir. We did not. We did not initiate it nor did we urge its adoption. And I think we have to go back and look at the situation as it existed at the time the agreement was negotiated. At that time Canada had a substantial unfavorable balance with the United States on automotive trade. They looked at it from the standpoint—here was a market, combining the North American markets, United States and Canada. They were purchasing, as I recall the figures, about 7 percent and they had about a 4-percent input as far as Canadian content was concerned, and they felt they were entitled to a greater share of that.

Now, there were some alternatives open to them. They could have increased their local content, moved it from the 60 percent to 80 or 90 percent as some of the countries in South America have done. The automobile companies recognized they had a stake in both the United States and in Canada and the two governments negotiated the terms. Otherwise it would have been a retaliatory tactic. If Canada did something, then the U.S. Government would react. They sat down around the table and negotiated this agreement without inputs from us or urging or initiative on our part.

Senator Bennett. Frankly, this is hard for me to believe.

Mr. Murphy. Senator, those are the facts and we have testified twice on this subject in the past. Mr. Roche testified—I think it was at the time the Congress was considering the legislation—and again I guess it is about 2 years ago now we testified on the impact of the trade agreement. We have updated that statement and I have attached it to our record statement for today.

Senator Ribicoff. It is not hard for me to believe. You see, unfortunately, American trade policy was subordinated to geopolitical and defense considerations. Our State Department was in the process of negotiating trade agreements all over the world using the bait of trade advantages for foreign countries to either get a base or an agreement that we thought helped us strategically. What has always concerned me is the lack of concern over the economic problems that were becoming the dominant factor in relationships between nations.

Here was the United States with ample reserves building up Japan and Germany. We took on worldwide defense obligations. We gave aid to nations all over the world. We had so many dollars, we were investing them abroad. The other nations were devoting their time and energy to building up their manufacturing and trade and monetary positions to the extent that now we find Japan with a $19 billion trade surplus in manufactures, Germany with $16 billion and the United States with a $7 billion deficit.

If General Motors manufactured its Cadillacs in Canada and manufactured its Chevrolets in the United States, we would not have the $2½ billion trade deficit. I do not blame General Motors. I remember that the United Auto Workers were for this agreement at the time when it was negotiated. I imagine they are angry today. We can ask Mr. Woodcock—he will be here on Thursday—how he feels this agreement has affected the American auto worker.

This problem is going to have to be at the center of considerable discussions between the United States and Canada which we need to correct this——

Senator BENNETT. I have another memory that might be wrong, but as I remember at the time the agreement was negotiated, its focus was on the interchange of parts between—assembly parts rather than on a program to manufacture entire automobiles in Canada. Am I wrong in that?

Mr. MURPHY. Well, I do not believe there was any focus other than to, you might say, increase the participation on the part of Canada to rationalize—I think that was the term widely used—the production capabilities on both sides of the border. It was up to the manufacturers to determine how best that rationalization could take place. There were some safeguards that were put in it to be sure that complete vehicles were going to be involved, not that you had complete freedom to abandon any of the prior assembly function that had been done in Canada. The focal point was not simply on parts, Senator.

Senator BENNETT. Well, have you not changed the pattern of your complete vehicle manufacturing in Canada?

Mr. MURPHY. We did it this way. In order to simplify the line, in order to get the advantages of scale, prior to the trade agreements we were manufacturing in very small quantity many of our cars in Canada. Under the terms of the trade agreement we were able to contemplate and get the advantages of efficiency of scale on a fewer number of models and serve the market for those small quantities from the United States. In other words, we could ship over the Oldsmobile, Buick, Pontiac type of automobile and concentrate in Canada on some of our higher volume Chevrolet models.

Senator BENNETT. I was a little surprised. Are you absolutely manufacturing most of your standard Chevrolets in Canada?

Mr. MURPHY. No, sir. It is a relatively small part of our total but we have concentrated more on the regular Chevrolet in Canada rather than try to make a lot of separate models, but some of those Chevrolets do come back into the United States.

Senator BENNETT. In effect, the agreement made it possible for you to get out from under the responsibilities of manufacturing some of the entire line in Canada?

Mr. MURPHY. It gave us an opportunity to rationalize the production so we could get a better efficiency and lower our costs on both sides of the border because we were doing the small quantities to serve the Canadian market, which was not as economic as if we made them in the United States.

Senator BENNETT. Yet, you say you had a completely neutral point of view towards the program developed entirely by professional negotiators from the two State Departments.

Mr. MURPHY. That is exactly what happened, Senator.

Senator BENNETT. It is hard for me from seeing what has happened to believe that you had no interest in the agreement.

Mr. MURPHY. We certainly had a lot of interest in the agreement but we were not a party to the agreement.

Senator BENNETT. I have nothing else.

Senator RIBICOFF. I think Senator Bennett raises a very important point because the agreement was executive in nature. The problem arises whether this committee should give any President of the United States blanket authority to negotiate agreements without coming to the Congress for its consent?

Senator BENNETT. That is not my point.

Senator RIBICOFF. I know, but that comes out of it. My feeling is if you would look into the archives of the State Department you would probably find that it was a very simple reason that created this agreement, and I do not think General Motors or Ford or Chrysler had any part in it. I recall it came about as a result of some matter between President Johnson and Lester Pearson of Canada. It developed out of a non-related issue. That is why when it comes to problems of foreign economic policies, my feeling is that the Finance Committee at least ought to know what is going on in the trade field. I think that while we should give the President every consideration and cooperation, at the same time we ought to know what is going on.

Senator BENNETT. I would like to ask one further question. Were you consulted by the State Department with respect to the details of the agreement before it was signed?

Mr. MURPHY. I do not believe so, Senator.

Senator BENNETT. This is unbelievable.

Senator HANSEN. Would you yield for just one observation?

Senator BENNETT. Yes.

Senator HANSEN. The information I have—and I would ask if you have any indication that there might be validity to it—squares precisely with the observation just made by the chairman. I understand that really the genesis of the agreement resulted from a phone call between—originating in Washington from President Johnson to Lester Pearson when Canada agreed to put troops on Cyprus, and the question raised by the President was what can we do for Canada, and out of that conversation came this auto agreement.

Mr. MURPHY. I cannot confirm that, Senator.

I would like to say, Senator, we tried to deal with this automotive trade agreement in our statement. We recognize it is a very important aspect of trade. I think we have to look at the results of the agreement against what might have happened. Canada had its options available to it and I am sure that is what the negotiating parties on the U.S. side looked at. They were looking at things Canada could do that might have been a deterrent to any participation in that Canadian market by the United States. And as a result of this, I think it has worked relatively well for both countries.

Now, maybe the negotiators were hoping for too much. They anticipated a growth in the Canadian market far above what actually has happened. A lot of the growth has been in imports. We have not been able to get all of the benefits. But employment has increased in the U.S. automotive industry over the period since the act was enacted in absolute numbers greater than it has on the Canadian side. And they are still—based on the figures of the Commerce Department, they are still a favorable balance in favor of the United States in recent years.

Senator Ribicoff. I think the lesson for all of us from the fantastic changes that have taken place over this past decade in every phase of international relations is that the United States needs a degree of flexibility in negotiating new agreements to reflect the shifting of burdens taking ito account the military and economic changes.

You are being asked all these questions because you are an impressive witness who is knowledgeable, and we do not mean to be badgering you. We are trying to get information, and we are grateful for your coming here. As I told you in the beginning, I am very much impressed with the amount of work that you, GM, and your staff did.

Now, just a couple of wrapup questions. Congress passed the investment tax credit. We speeded up depreciation guidelines. We passed DISC legislation. We repealed the automobile excise tax. I voted for all of these measures in committee and on the floor, and I think these were proper actions for us to take. All of this was done in an effort to make our economy more competitive and supposedly to create more jobs for Americans. Yet today we have the largest trade deficit in our history.

What do you think we have to do to remain competitive and will the devaluation of the dollar be enough?

Mr. Murphy. Well, I think the devaluation of the dollar was just an adjustment but I would hope in the wisdom of this Government we could find a better way of having the international monetary system work in an orderly fashion instead of by crisis, you might say, and I would hope that that would be part of the deliberations on the part of Congress and the administration, to see if we cannot develop and work with the other countries on a more effective international monetary system. But I think the real thing, the real challenge for us in the United States, is to be more productive, is to increase our productivity so we can maintain the competitive edge we have had historically in the world markets, that we can preserve and enhance our standard of living, that we can pay the high wages that hourly workers have here, that we can create the good jobs and make progress and be an important and a growing part of the world scene, the world trade. And I think we can do all of these things but we are going to have to work hard.

I think there has to be a greater spirit of cooperation on the part of Government, industry, labor, all of us in the United States, because we all have the same objectives in mind. We all want progress for this great country of ours and I want us to be an important part of the world trade in every sense of the word, but we are going to have to work together and work hard because we are confronted with very formidable competitors in the world market. The Japanese are very good, not just in automobiles but in everything they do. The Germans have been very aggressive and the Italians as well.

All of these people are interested in progress for themselves. I think their objectives and ours can be made to complement one another and great progress and growth can come forward for all people. I hope that is true.

Senator RIBICOFF. If you do not have this information or if it is in some of your statistics, point that out to me or supply them later. What are the average total wage costs in GM factories in the United States? Do you have that?

Mr. MURPHY. We give the total wage costs for our United States——

Senator RIBICOFF. Annually, the average total wage cost.

Mr. MURPHY. Then we gave a display that shows the percentage that those wage costs is of the United States as 100 percent in the various countries—some of our principal overseas areas of the world, in connection with the longer for-the-record statement. We just referred to it briefly in the oral statement.

Senator RIBICOFF. If you do not have them together you can supply them to us.

Mr. MURPHY. It is in the statement, Senator, but anything else that the—it is our record statement, Chart No. 8. It shows the relationship of our basic hourly wage rates and our total hourly wage costs including supplementary benefits with the United States as 100 and it shows these various other countries where we have operations.

Senator BENNETT. I notice Canada is not there.

Mr. MURPHY. Canada for all practical purposes, Senator, has wage parity with the United States at the present time. In other words, our wages in Canada and the United States are for all practical purposes, the same. Canadian dollars in Canada, U.S. dollars in the United States.

Senator RIBICOFF. Now, that is what bothers me. After all, I have not seen a Japanese or German automobile plant. I am sure you have, or your people have. I imagine that they are as automated as ours.

Do you think that it is possible in considering a technologically advanced country like Japan or Germany that we can be that much better to make up a wage differential between 37 to 100? That is certainly a vast gulf.

Mr. MURPHY. It is a formidable task but wage rates are only part of the reason, Senator. We like to think that by our management abilities and by our investments and by our technology we can keep right up on top and certainly with the opportunities that this great country of ours affords in the way of a market it is going to give us an advantage of scale and it is up to us to take the challenge, but certainly if the Japanese are going to be more productive than we and continue not only to have the advantage of wage rates but then also to have an advantage in reducing labor costs, then it is going to be a very difficult thing for us.

Senator RIBICOFF. What percentage are wages in the total cost of making an automobile?

Mr. MURPHY. I think the best way I can answer that is taking our total sales dollar across the corporation. Roughly one-third of our sales dollar. and this is total General Motors, is in payroll, in wage-related costs. And that would be representative probably of our labor content in a car. Now, this varies from plant to plant and country to country depending on the degree of integration.

Another 46 percent of our revenue goes to buying supplies and materials from other people and there is a high wage content in that. So that when you get the total wage content, in other words, what is inside and outside——

Senator RIBICOFF. So we are really in a tough competitive situation. Japanese steel, I assume, is cheaper than American steel.

Mr. MURPHY. It has been. I think with the realinement of the currencies it may turn the other way.

Senator RIBICOFF. Well, there is also glass and upholstery for example, that goes into an automobile. This is one of the ironies. When you devalue the dollar, what the Japanese have to import in raw materials to go into their automobiles is that much cheaper. That goes for whatever they buy from the United States. So devaluation does not raise the sales price of the Japanese automobiles because—60 percent of what goes into producing an automobile they buy 10 percent cheaper with devaluation. All of this indicates that we are faced with a really tough problem and we have to recognize we are not going to be able to gloss it over.

Senator BENNETT. May I ask one question?

Senator RIBICOFF. Certainly.

Senator BENNETT. I am very puzzled. That chart—chart 8*—shows that in Australia and in England, South Africa, that the total hour cost including supplementary benefits is lower than the wage cost.

Mr. MURPHY. Both of these are expressed as a percentage of the United States.

Senator BENNETT. But how do you reduce the cost? How can you provide supplementary benefits plus wages at a lower cost than the total wage cost?

Mr. MURPHY. Senator, it is a case of the hourly based wage rate in the first column in the United States and I am just—I do not have the exact figure but say, that is $5 and in the second column it is $8.

Senator BENNETT. I see. It is a combination of the two.

Mr. MURPHY. It is a combination.

Senator BENNETT. The 100 percent does not represent the same figure.

Mr. MURPHY. No, sir. It is a different base, the base in both cases being the cost of those respective numbers in the United States and then——

Senator BENNETT. Then to take an example of Germany where the total cost including supplementary benefits is higher than the wage rate, the Germans have higher supplementary benefits than we do.

Mr. MURPHY. Precisely. They have relatively higher supplementary benefits in terms of cost than we have here in the United States and in other cases they are ratably lower.

Senator BENNETT. Thank you. I see it.

Senator RIBICOFF. Any other questions or any other comments, Senator Packwood?

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*See p. 173.

Senator PACKWOOD. I have got a few, but I can ask him privately after the hearing. As you know, I am still learning this. If you can wait a few minutes, Mr. Murphy, I would be grateful.

Mr. MURPHY. I would be happy to.

Senator RIBICOFF. Again, we do appreciate your coming here. When men of your knowledge and responsibility come to this committee as well prepared as you, sir, it helps us in the task that we have ahead of of us. Thanks again to you and your association.

Mr. MURPHY. Thank you very much, Senator. I enjoyed it. I appreciate the opportunity.

Senator RIBICOFF. We will recess until 10 o'clock tomorrow morning.

(Mr. Murphy's prepared statement and a subsequent communication from Mr. Murphy follows. Hearing continues on page 193.)

STATEMENT OF GENERAL MOTORS CORPORATION, PRESENTED BY THOMAS A. MURPHY, VICE CHAIRMAN

General Motors appreciates this opportunity to review its worldwide operations. It is our conviction, based on over sixty years of active participation in the world market, that the reduction of barriers to world trade and investment is essential to raising living standards and employment both at home and overseas. Moreover, we are convinced that the operations of multinational business firms have made and can continue to make a significant contribution to the realization of these goals.

In response to the Chairman's inquiry, we have organized our statement under three broad headings. First, we would like to review briefly the evolution of the multinational automotive industry as background for a discussion of its impact on production, employment, trade and the balance of payments. In doing so, we will draw heavily on General Motors experience and my personal observations over some 35 years with General Motors. Second, I would like to relate General Motors experience to the allegations of critics of multinational business as summarized in the informal outline, which you, Mr. Chairman, furnished me in advance of these hearings. Third, I would like to offer our views on the important questions the Chairman has identified as being of special interest to the Subcommittee.

I. *The Evolution of the Multinational Automotive Industry*

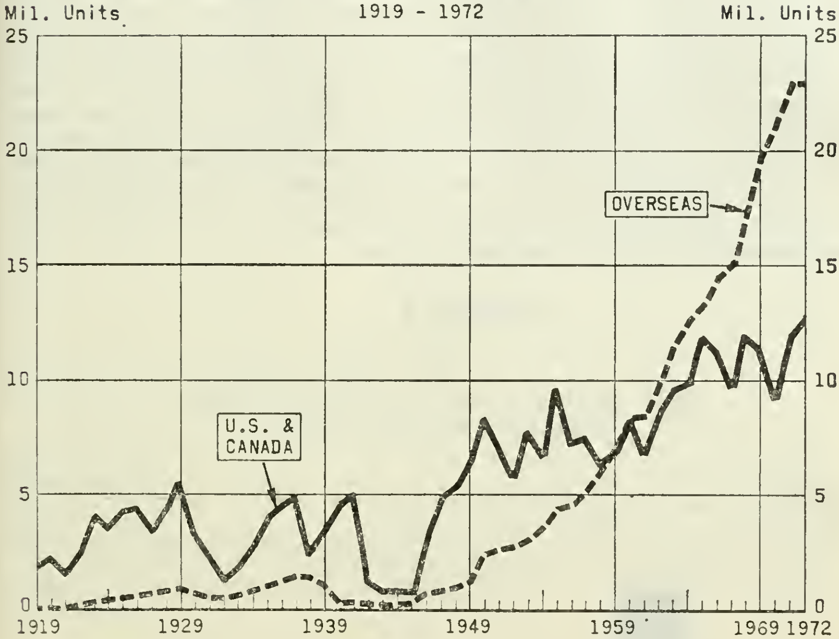
The world automobile market is today served largely by multinational concerns. Some of these, such as General Motors, are based in the United States. Others are based in France, Germany, Italy, Sweden, the United Kingdom and, more recently, Japan.

Regardless of their home bases, all of these firms are engaged in an aggressive and highly competitive search for markets. They are generally large, well-staffed and efficient producers. As a result, competitive pressures have increased and are continuing to increase. Each producer has had to run fast just to obtain and endeavor to hold a position in the markets around the world.

Chart 1, below, provides a summary of the production of motor vehicles in the United States and Canada as compared with the rest of the world. As the chart indicates, motor vehicle production overseas expanded rapidly as industry and the economies in Europe and elsewhere started their post-war recovery.

The early years of our industry were a period of profound change in technology, in competitive challenge and in national policies. It was a period of rapid economic growth. While automotive historians attribute the internal combustion engine to European inventors, the techniques of mass production were undeniably an American innovation. As a result, U.S. manufacturers quickly took a commanding lead in the manufacture of low cost motor vehicles and in the 10-year period after World War I served the world market by exporting cars and trucks made in the United States. Initially, complete vehicles were shipped. However, increasing shipping costs and rising tariffs on fully-assembled vehicles made it a competitive necessity to begin assembling vehicles overseas. Moreover, a European-based automobile industry close to its suppliers and markets was slowly taking root as a competitive challenge to U.S.-produced cars and trucks. The cost reduction resulting from the export of components for assembly overseas enabled U.S. producers to remain competitive. For example, in 1928, General Motors could ship nine unassembled Chevrolets to Europe for assembly at about

Chart 1



WORLDWIDE MOTOR VEHICLE PRODUCTION
NORTH AMERICAN VS. OVERSEAS
1919 - 1972

SOURCE: Motor Vehicle Manufacturers
Association of the U.S.

the same shipping costs as two fully-assembled cars. During the period from 1923 to 1928, General Motors established 19 assembly plants in 15 overseas countries.

Thus, the origin of General Motors as a multinational manufacturer can be traced back to our establishment of these early overseas assembly facilities. They enabled us to reduce the cost handicaps of long export supply lines. They also enabled us to remain competitive in the world market as an exporter of components. In fact, by 1929—a peak year for U.S. automotive exports—about 70% of the cars we exported were being shipped as components from the United States for overseas assembly.

As early as the mid-1920's, however, there were indications that General Motors could not rely solely on the export-overseas assembly approach and remain a strong competitive factor in the overseas markets. These were years of very rapid change. Consumer preference in the United States was for larger cars, while in Europe the demand was for smaller cars. In addition, European manufacturers were adopting U.S. developed mass production methods.

As a result, General Motors took its first tentative steps to manufacture components in Europe and to assemble cars designed to meet European needs through the acquisition of two overseas manufacturing facilities—one in England, the other in Germany. Thus, by 1929 General Motors was serving the overseas world demand in three ways: by exporting fully-assembled units, accounting for 30% of our unit exports from the United States; by exporting unassembled units, accounting for 70% of our exports; and by the manufacture of cars and trucks in Germany and England.

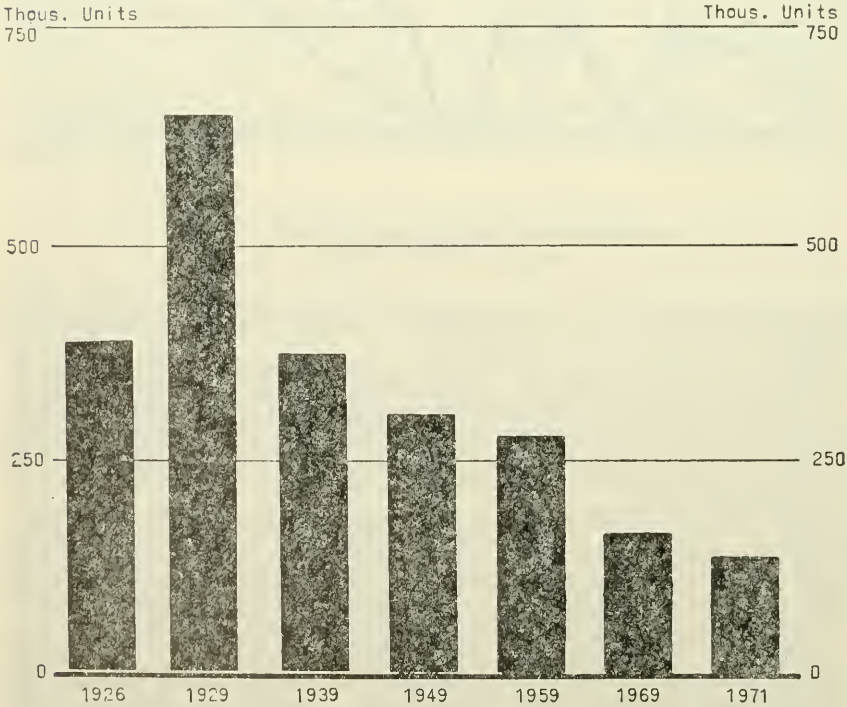
The worldwide depression of the Thirties had a lasting effect on General Motors and other companies serving the international market. In an effort to protect jobs at home, nations around the world adopted protectionist policies. In the United States, the highly protectionist Smoot-Hawley tariff was imposed. The results, as we now recognize, were catastrophic.

In the case of General Motors, exports of motor vehicles, both assembled and unassembled, from the United States dropped from 250,000 units in 1929 to only 44,000 units in 1932. The total number of 648,000 cars and trucks exported from the United States and Canada by all manufacturers in 1929 was a record which has been unsurpassed since that time; by 1932, this total was only 83,000 units.

With the economic recovery abroad in the years following 1932, the demand for motor vehicles again expanded rapidly. By the late Thirties, total sales of cars and trucks produced by all manufacturers overseas had reached a level well above that reached in 1929. In contrast to the overall increase in overseas demand, the sales of United States and Canadian source vehicles in overseas countries continued to be depressed by trade restrictions and discriminatory taxes imposed by overseas countries, as well as customer preferences for locally supplied vehicles. As a result, the overseas demand for assembled and unassembled vehicles exported from the United States and Canada declined by 42% from 1929 to 1939. As indicated in Chart 2, this trend has continued.

Chart 2

NORTH AMERICAN MOTOR VEHICLE EXPORTS
(SELECTED YEARS - 1926 - 1971)



Source: Motor Vehicle Manufacturers Association of the U.S., Inc.-Various U.S. and Canadian Official Sources

THE POST-WORLD WAR II EMERGENCE OF A WORLD AUTOMOTIVE MARKET

Two major developments in the quarter century after the end of the second World War further accelerated the trend toward overseas production rather than U.S. exports. One was the creation of large trade groups such as the European Economic Community and the European Free Trade Association. The other was the emergence of the developing nations emphasizing accelerated industrialization as a major and understandable goal.

Under the programs adopted by the member countries of the two trade areas, programs were scheduled to remove tariffs within each area but to continue outer tariffs at a newly-established common level. In 1957, immediately prior to the formation of the EEC, the six member countries had separate external tariff rates on assembled cars ranging from 17% in Germany to 45% in Italy. These high rates, which are applied to the cost of the vehicle including shipping and insurance costs, were gradually reduced over the next ten years. When the first common external rates became effective in July, 1968, they were 22% for assembled cars and 14% on components imported for assembly. After the Kennedy Round, these rates were further reduced to 11% and 7%, respectively.

In General Motors view, the Treaty of Rome and the Treaty of Stockholm establishing the two markets and the emergence of a broad-based European market within which goods could move freely were significant steps toward free trade. Nevertheless, with a high common external tariff and the planned removal of internal tariffs, there was only one course left open for producers outside these market areas in order to continue to serve them—invest directly in manufacturing capacity within the newly-formed market areas. The recent enlargement of the Common Market from six to nine nations, including the United Kingdom, reinforces this trend.

The industrial aspirations of the developing countries and the policies adopted to realize their goals is the second trend which has importantly affected the growth of overseas operations of multinational automotive firms. The creation of a domestic motor vehicle industry has been a key element in the industrialization plan of several of those developing countries. Typically, so-called "local content" regulations have been adopted which establish time schedules for substituting local production for component imports. For example, the "local content" requirement in the manufacture of passenger cars in Mexico is now 60%, in South Africa, 55%; in Brazil, the requirement is now 100% and in Argentina, 95%. (Chart 3)

CHART 3

PASSENGER CAR, LOCAL CONTENT REGULATIONS (SELECTED COUNTRIES 1966–71)

[In percent]

	Local content requirement	
	1966	1971
Mexico	60	60
Brazil	100	100
Venezuela	26	43
Argentina	95	95
South Africa	45	55

The choice facing each manufacturer is a simple one: To comply with the local content requirements or to withdraw. Were U.S.-based manufacturers to adopt the latter course, any possibility for sales in such areas and any opportunity to export even the reduced content from diversified other sources in the United States would be lost. Furthermore, the machinery exports required to realize local content requirements would be effectively removed as a potential product market for suppliers in the United States. In each instance, faced with this choice, General Motors decision has depended on whether there appeared to be a growth potential and a profit opportunity which would justify making the added investment.

Since World War II, General Motors has had to make a number of decisions to participate in a national market by expanding its investment or liquidating an existing investment. In some instances—India, Pakistan and Peru are cases in point—the decision was reached to withdraw. In many more, such as Mexico, Argentina, Brazil and Australia, the decision was made to continue to provide the necessary facilities for local manufacture.

The options available to a multinational business during the post World War II period are well illustrated by General Motors decision to manufacture vehicles in Australia. Prior to the war, General Motors had been exporting vehicle components from the United States and United Kingdom for assembly in Australia. Late in 1944, the Australian Government announced its plan for developing a domestic automobile industry. General Motors and other manufacturers were advised by the Australian Government of its intent and requested to submit a proposal to the government if interested. Since this decision involved a major change in our approach to this market and a major investment, there were a number of fundamental questions to be resolved. As Frederic Donner, a former General Motors chairman, pointed out in his McKinsey Lecture Series at Columbia University in 1966, General Motors could not escape the following conclusion:

"Since the Australian government had addressed its request to a number of world-wide manufacturers, the chances were that if we did not accept the challenge, some other manufacturer would. In short, if we failed to move toward manufacturing in Australia, we stood to lose all or a major part of our market in that part of the world."

Our analysis of the Australian motor vehicle market pointed to a potential demand of at least 20,000 vehicles by 1950 and continued growth beyond that date. As a result, the decision to remain in the market was made on the only basis acceptable to the Australian Government—by undertaking the domestic manufacture of a vehicle. The initial production in 1948 was 163 Holden cars. Last year, our Australian operations produced 189,000 vehicles.

In recent years, a number of countries have also required local ownership participation in the overseas subsidiaries as a condition of market participation. Although this requirement represents a departure from General Motors basic ownership philosophy, joint ventures have been approved in Korea, the Philippines and Thailand. In addition, General Motors has a minority interest in a Japanese vehicle manufacturing company.

There are three points which emerge from this brief review of General Motors growth as a multinational business which are germane to the Subcommittee's examination of multinational business.

First, General Motors decisions have not involved a choice between exporting from the United States or manufacturing abroad. Differences in customer product requirements and preferences, trade barriers—both tariff and non-tariff—reflecting deep rooted national policies, and logistics have generally foreclosed the export opportunity.

Second, General Motors overseas investments have been dictated by market opportunity, not by availability of hourly labor rates lower than those in the United States. It has been and is today very clear that we could serve the vehicle needs of many developing countries by exporting high-volume cars and trucks from the United States at a lower unit cost than we can manufacture on a low volume basis locally. The cost penalties to serve a relatively small local area with low production volumes more than offset the lower wage levels in many of these countries. The fact is that in developing countries, volume is low, unit costs are high and so are vehicle prices.

Third, there is no question that if General Motors or other U.S. automotive firms were to turn their backs on market participation through overseas facilities, multinational firms based in other countries would be alert and quick to act to fill the need. Trends in our neighboring continent, South America, are illustrative of the pressures existing even when we do elect to compete. The major passenger car manufacturer in Brazil, accounting for 65% of all passenger car sales, is Volkswagen, a multinational manufacturer based in Germany. Volkswagen is also the leading passenger car manufacturer in Mexico. The major producer in Argentina, accounting for almost 30% of retail sales, is Fiat, also a multinational producer and the sales leader in the total overseas market, based in Italy. In other developing areas, the Japanese vehicle manufacurers with multinational facilities are leading competitors—particularly in Asia. The major challenge which U.S. based automobile manufacturers face is to compete successfully against efficient producers such as these.

To put this in broader perspective, vehicle sales outside the United States and Canada in 1972 totaled 18.1 million units, of which GM's worldwide operations were able to sell only a little over 9 percent. The two leading producers were Fiat and Toyota.

THE UNITED STATES-CANADA AUTOMOTIVE TRADE AGREEMENT

Before leaving the subject of the impact of government policies on multinational operations, let me comment on the Agreement reached by our government and the Canadian government on automotive trade. This Agreement was formalized in the Automotive Products Trade Act of 1965.

The record is clear that General Motors did not initiate or urge adoption of the Agreement. We were prepared to do whatever the two governments decided to be in the best interests of the United States and Canada. In testimony before the Senate Finance Committee in 1965, James Roche, then executive vice president of General Motors, summarized our view as follows:

"It is the belief of General Motors that the Automotive Products Agreement, while not free of difficulties, is over a period of time a workable plan. It was worked out by representatives of the two governments and freely entered into on both sides.

"While General Motors must respect its provisions, we had nothing to do with evolving either it or the remission plan.

"In the present instance we see an obligation as a corporate citizen both of the United States and of Canada to attempt to accomplish the objectives of this agreement, which was freely negotiated by the two governments and freely entered into in the belief that it was in the best interests of both countries. We are confident of our ability to operate under the agreement and to continue to make our contribution to the economies of both the United Staes and Canada."

With your permission, I would like to submit for the record a GM statement on the United States-Canada Automotive Trade Agreement, submitted to the Commission on International Trade and Investment Policy in February, 1971. This provides a comprehensive evaluation of the effects of the Agreement on U.S. and Canadian vehicle production, trade, employment and the balance of payments. For your convenience, we have brought up to date the statistical summaries contained in this statement.

The Act abolished tariffs on automotive products trade between automotive producers, in order to permit the Canadian automobile industry to get the advantages of greater specialization of production and to permit the United States automotive industry to share in the Canadian market.

Measuring automotive trade between the United States and Canada has been subject to some problems of valuation of imports and exports. This technical matter has been reviewed in consultation between the two governments and agreement on methods was announced. On this basis, Chart 4 summarizes the U.S.-Canadian automotive trade. The total value of automotive trade between the United States and Canada in 1972 was more than 12 times the level of 1964. After several years of decline in the U.S. balance of automotive trade with Canada, the trend has been reversed. We understand that preliminary data on the 1972 automotive trade will show a favorable balance in excess of $100 million.

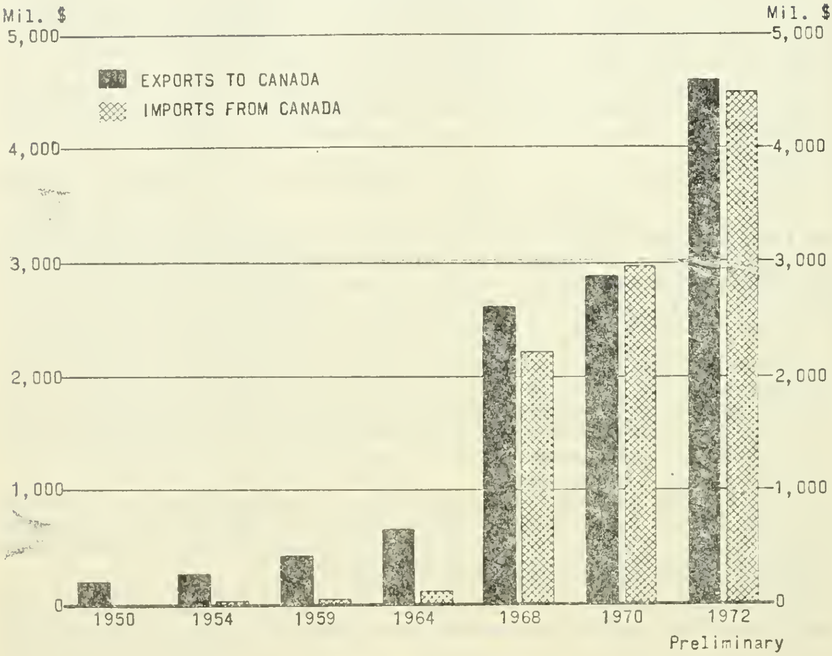
The U.S.-Canadian Automotive Trade Agreement represents a movement toward free trade and was a novel approach—not without problems—to resolving a trade problem. The proximity of the two countries, and the production and marketing of identical products by the same manufacturers made the Agreement possible.

Four observations relevant to the Committee's review may be made about the Agreement. First, it must be recalled that there was a 60% Commonwealth content requirement for passenger cars and a 50% requirement for trucks in effect prior to the Agreement. Among the widely discussed alternatives to the Agreement was a sharp increase in minimum local content requirements, the imposition of surcharges on imported vehicles or an increase in duties. The adoption of any of these alternatives, which Canada apparently was prepared to do, would have impaired the trade harmony between the two countries with clearly adverse effects on U.S. automotive production and employment.

Second, increased local content requirements of necessity open up the question for each manufacturer of continuing to operate in such areas. As Mr. Roche testified, General Motors was "confident of our ability to operate under the Agreement." It is fair to ask what options a manufacturer had, given the above alternatives, beyond making every effort to operate successfully under the Agreement. General Motors has large investments in facilities on both sides of the border, and we are proud of the contribution we have been able to make to the

Chart 4

VALUE OF U.S. AUTOMOTIVE EXPORTS AND IMPORTS*
TO AND FROM CANADA
(SELECTED YEARS 1950 - 1972)



*Excludes Snowmobiles

Source: U.S. Department of Commerce

economies of both countries. Obviously, we must operate within the terms of any agreement reached by the U.S. and Canadian governments.

Third, in one important respect, the assumptions concerning the growth of Canadian automobile demand were not fulfilled following 1964. In hearings before the House Ways and Means Committee on the Automotive Products Trade Act of 1965, it was stated that the Canadian automobile market growth was projected at eight per cent per year. This rate has not been realized. Since 1964, the Canadian demand for North American and foreign type cars has increased at an average annual rate of four per cent. The demand for North American type cars, however, has been below this average. Had the eight per cent annual growth rate assumption for North American type cars been fulfilled, the current U.S. trade surplus with Canada would be substantially larger.

Fourth, while the rate of increase of Canadian automotive employment since 1964 has been higher than that in the United States, the number of employees added to U.S. automotive payrolls since 1964 is almost five times the number added to Canadian automotive payrolls.

General Motors will continue to make every effort to live up to the letter and spirit of whatever production requirements the United States and Canadian governments determine to be in the best interests of the two countries. To meet the requirements of the current Agreement has required substantial additional capital investments on both sides of the border. If, as has been suggested, the Agreement were cancelled, it would result in a considerable cost to manufacturers who would have to "undo" the production adjustments already made.

II. THE IMPACT OF GENERAL MOTORS WORLD-WIDE OPERATIONS ON U.S. EMPLOYMENT AND GROWTH

Let me turn now to the issues you identified, Mr. Chairman, in the "informal outline" enclosed with your note to me of February 8. The relevant paragraph in your outline is your summary of the position of critics of multinational firms.

"Critics maintain that the operations of the multinational companies pose a threat to the American standard of living, jobs and the industrial base of the United States by transferring technology and production overseas. They point out that capital, management and technology are internationally mobile, while labor clearly is not. They argue that the deterioration of the U.S. position in world trade and our current high rate of unemployment is due, in large measure, to the operation of our multinational firms."

Contrary to the critics' view that multinational operations pose a threat by transferring production overseas, General Motors worldwide operations have enabled us to serve even the limited demand for U.S. produced cars and trucks around the world. The reason for this is evident. General Motors has been able to establish vehicle sales and service facilities in most market locations around the globe. The mainstay of their support are the vehicles designed and produced by General Motors' subsidiaries overseas for the needs of these markets—the small Opels, Vauxhalls and Holdens and cars of a similar size manufactured in Mexico, Brazil, Argentina, and South Africa.

It is important to emphasize that General Motors distribution facilities, located in almost every nation of the world, are also available for the sales and service of U.S. produced vehicles wherever there may be a demand. Since a motor vehicle is a complex engineering product which must have periodic service from trained mechanics, it is difficult to imagine that there could be any demand for U.S. cars and trucks without a distribution network.

General Motors worldwide dealer organization and vehicle and parts export effort is the most important single factor in the cumulative balance of trade surplus for General Motors since 1946 of about $12 billion. This includes General Motors exports of locomotives, diesel and gasoline engines, earth moving equipment, heavy duty transmissions and related components and spare parts which are distributed through our overseas subsidiaries and which are making a continuing contribution to our trade balance. Over this same period of time, General Motors earnings remittances from overseas operations have exceeded its very limited capital outflow by $2 billion. In total, therefore, General Motors cumulative contribution to the United States balance of payments is some $14 billion. (Chart 5) In 1972, General Motors contribution to the U.S. balance of payments was $400 million.

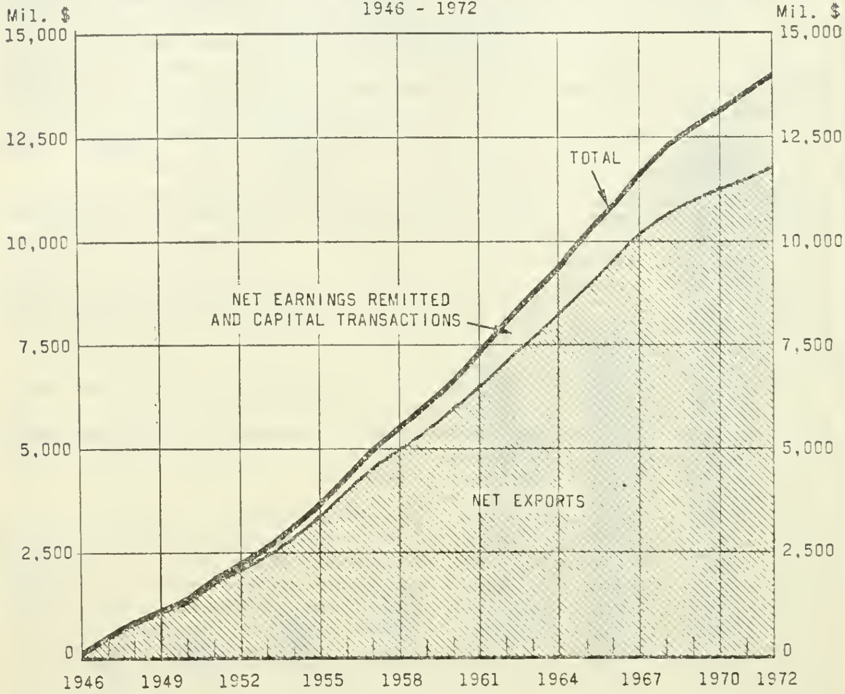
GM exports also support U.S. jobs. For example, applying the average GM 1972 domestic revenue of $47,000 per employe suggests that some 34,000 GM employes in the United States were dependent on our 1972 exports from the United States valued at $1.6 billion. Moreover, since about 50% of the material and services embodied in our products is purchased from outside suppliers, total employment directly attributable to General Motors exports was probably close to 70,000 last year. In short, General Motors multinational operations, rather than posing a threat to U.S. employment, have enlarged our domestic potential.

As is pointed out in your informal outline, critics also allege that the transfer of technology by multinational business poses a threat to the American standard of living. We would like to be able to assert to you that all of the worthwhile innovations in automotive design and manufacturing methods were the result of American discovery, research and development. But this is simply not so. As proud as we are of General Motors' contribution here in the United States over the years, the fact is that we have also benefited from automotive research in other countries. The rotary engine development is a recent and much publicized case in point. There has been a continuing two-way flow of technology and innovation. Given the intense competitive conditions in the industry, improvements in product and manufacturing technology do not long go undetected. The goal of each maufacturer—wherever he is located—is to work a little harder, run a little faster and introduce a little sooner than his competitors, the best that automotive engineering can develop. The ultimate beneficiary of this process is the consumer.

The American buyer can choose from among imported as well as domestically produced cars with no discriminatory fees or special taxes. The tariff, now 3% on the factory cost of the car, is among the lowest in the world. Buyers overseas,

Chart 5

GM CUMULATIVE NET CONTRIBUTION TO U.S. BALANCE OF PAYMENTS
1946 - 1972



because of both tariff and non-tariff barriers, do not have this choice. It has long been our contention that U.S. produced cars and trucks should be available in other countries on the same non-discriminatory basis that imports are available in the United States. A vigorous effort in this direction by our government at the forthcoming Geneva Conferences is certainly indicated. The broad framework suggested by Senator Ribicoff in his report to Chairman Long would be most appropriate. The tariff rates of the major auto production areas are shown in Chart 6 and illustrate the current disparities.

CHART 6.—TARIFF RATES ON PASSENGER CARS (SELECTED COUNTRIES: 1957-73)

[In percent]

	1957	1968	1973
United States	8.5	5.5	3.0
EEC (external tariff) [1]		22.0	11.0
United Kingdom	30.0	17.5	11.0
Japan;			
Wheelbase less than 106 in	40.0	40.0	6.4
Wheelbase more than 106 in	35.0	35.0	

[1] The 6 member countries of the EEC had separate rates in 1957 which began to be gradually reduced starting in January 1958 to reach the common external rate of 22 percent in 1968. In 1957 these rates were 24 percent in Benelux, 30 percent in France, 17 to 21 percent in Germany (depending on engine capacity), and 35 to 45 percent in Italy (also based on engine capacity).

General Motors record of expansion in the United States provides a direct answer to critics who assert that multinational operation is a threat to U.S. production and employment. Here is General Motors' record.

INVESTMENT, SALES AND REVENUES

General Motors effort to serve United States customers with cars and trucks produced in the United States can be documented in many ways. At the end of 1972, General Motors gross fixed assets (real estate, plant and equipment) amounted to $14.7 billion, of which $11.7 billion or 80% was in the United States. Since 1960, General Motors expenditures on plant and equipment totaled $11.7 billion, of which $9.2 billion was invested at home.

In terms of factory sales, General Motors produced 5,740,000 cars and trucks in the United States in 1972—an increase of 56% from 1960—representing 74 per cent of our combined factory sales from all sources. Of our total dollar sales, U.S. operations accounted for 85% in 1972.

General Motors domestic revenues in 1972 were up 137% from the level in 1960. By comparison, total sales in the manufacturing sector of the U.S. economy rose only 94%. This greater growth of GM domestic revenues during the past 12 years is in line with the findings of several recent studies on the operations of the U.S. multinational corporations. For example, the study of the Emergency Committee for American Trade found that the expansion of U.S. firms with extensive overseas operations between 1960 and 1970 (the period studied) was more rapid than those U.S. firms with little or no direct investment overseas.

Whether and to what degree the differential rates of growth in revenues reflect differential rates of price increase is difficult, if not impossible, to determine. However, based on the Bureau of Labor Statistics Wholesale Price Index, the manufactured products price index increased by almost 24.5% between 1960 and 1972. The automotive component of the Index, on the other hand, increased by about 11%. Both measures of price trends have been adjusted by the Bureau for product quality improvements. Aside from the price factor, the favorable rise in General Motors revenues reflects, in addition to the increase in unit sales, innovations in car components—optional power assist equipment, increasing demand for automatic transmissions, improved air conditioning systems and other conveniences—which have appealed to new car buyers. This competitive process of innovation has contributed to the unit sales of U.S. produced cars and trucks and has also provided a base for increased employment.

DOMESTIC EMPLOYMENT

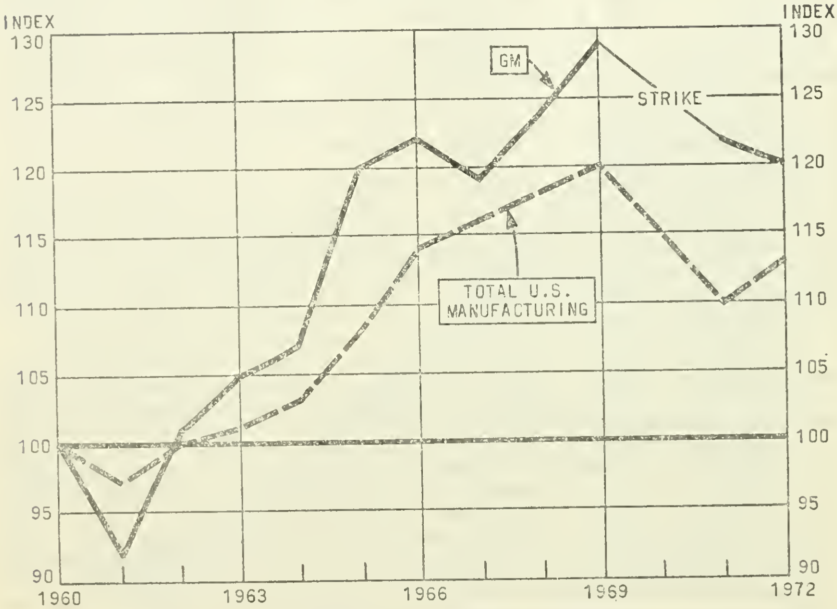
In 1972 the average number of GM employes in the United States was in excess of 550,000—20% above the number of such employes in 1960. This growth in employment also compares favorably with the total employment in the manufacturing sector of the U.S. economy which rose only 12% from 16.8 million to 18.9 million.

Again, as in the case of revenues and assets and as shown in the study of the Emergency Committee for American Trade, this good record was in line with the performance of the U.S. multinational corporations generally. The domestic employment of multinational firms rose faster than that of U.S. manufacturing as a whole between 1960 and 1970. There is nothing in this record to support the contention of critics, summarized in the informal outline, that "our current high rate of unemployment is due, in large measure, to the operation of our multinational firms." In fact, this record points to the opposite conclusion. This conclusion is buttressed by the recent report of the Tariff Commission to the Senate Finance Committee. Ultimately, the goal is not only to create more jobs, but, at the same time, to improve efficiency so that each job will provide an American worker with a higher standard of living. This, of course, is an historic result of American competitive enterprise.

Chart 7

GROWTH OF GM DOMESTIC VS. U.S. MANUFACTURING EMPLOYMENT

(1960 = 100)



Source: General Motors Corporation And U.S. Department of Labor

MEETING THE CHALLENGE OF VEHICLE IMPORTS

When the foreign manufacturers began to export their products to the United States it was evident that they could view these sales as an increment to their large domestic sales at home where essentially the same cars were being distributed. Unit costs were low because of the large volume sales opportunity at home and this cost advantage could be carried over to their export volume. As their export volume grew, many overseas producers expanded their facilities to serve the export demand, and in so doing, they were able to continue to market their export volume on a highly competitive basis.

Foreign manufacturers had another important advantage in lower hourly labor costs. For example, in Germany hourly wage rates (including supplementary benefits) are 35% below those in the United States. These and other comparisons, based on data from General Motors domestic operations and overseas subsidiaries, are provided below. Japanese data are based on published trade sources.

To put these rates into perspective, the average annual gross earnings of a GM hourly rate worker in the U.S. is about $12,500. Adding supplementary benefits, this becomes $16,000.

General Motors has endeavored to meet customer demand in the United States for smaller and lighter cars on a commercially viable basis. Beginning in the fall of 1959, General Motors introduced its first line of smaller cars, the Corvair, as a competitive alternate to imported cars. This was augmented two years later with a second line—the Chevy II. These cars, together with competitive models introduced by other domestic producers, were an effective challenge to imports whose sales dropped from about ten per cent of total U.S. sales in 1959 to under five per cent by 1962. The introduction of the intermediate size cars by General Motors such as the Pontiac Tempest, introduced in 1960, was also a response to those customers who wanted cars smaller than the standard regular size cars.

CHART 8.—RELATIVE COST OF AN AVERAGE HOUR OF LABOR[1] AT GENERAL MOTORS OPERATIONS (AS OF DEC. 31, 1972)

As percent of U.S. rate]

	Hourly base rate	Total hourly cost including supplementary benefits
Country:		
United States	100	100
Germany	59	65
Australia	48	44
England	44	37
Mexico	33	35
South Africa	26	20
Brazil	15	18
Argentina	16	16
Memo: Japan[2]		37

[1] Local currencies were converted into U.S. dollars at exchange rates of Feb. 20, 1973.

[2] Average for Japanese automotive industry.

In spite of their initial setback, participation in the U.S. market continued to be attractive to overseas manufacturers. Since established dealer organizations provided ready access to the U.S. automobile buyer, imported car manufacturers again tested the market and sales began to rise rapidly in the latter half of the 1960's—a trend which accelerated with a major expansion in the availability of Japanese-source cars.

To meet this new challenge, General Motors' planning for the introduction of the Vega began in the mid-1960's. In our view, it was necessary to encompass within our program the design of the car, materials and manufacturing. It was our conclusion that we could compete effectively only if we could achieve a substantial advance in vehicle design and manufacture.

Shortly after the Vega was introduced in 1970, Richard Gerstenberg, then General Motors Vice Chairman, described General Motors approach to the planning of this new car in an address to the National Academy of Engineering. Let me quote a portion of his remarks:

"To produce this car, we built a completely new plant in Lordstown, Ohio. It is one of the most highly automated automobile assembly operations in the world. This especially applies to welding equipment on the assembly lines. More than 85% of assembly-line welding on the Vega is done automatically. New processes are used in rustproofing and soundproofing. The body paint is applied automatically.

"Equally important are the contributions made by simplified product design, innovations in use of materials, and reductions of weight. A new aluminum alloy and a new fabricating process were used to produce the engine block.

"Beyond the car itself, our engineers made a major contribution to a different design for railroad cars to reduce shipping costs and minimize damage to the car in transit. The automobiles are packed hanging on the inside of a pallet which becomes the side of the rail car. The capacity of each new rail car is increased to 30 Vegas—compared to 18 in conventional rail cars.

"Technological innovation was the foundation of our approach to the new Vega. This was essential if we were to achieve our goal of producing a car with American standards of quality, designed to meet the discriminating needs of American motorists, and at a price which made it strongly competitive in value with imported cars. And we wanted our new car to be built with American parts and material and by American workers."

The domestically produced small cars are making an effective bid for a share of the small car sales. Almost 350,000 Vega cars were sold in the United States in 1972 in spite of the well-publicized labor difficulties at our Lordstown plant. We have every reason to anticipate an increase in sales this year and currently have a substantial increase in production capacity under way. Estimated employment resulting from production of the Vega and its components by General Motors and its suppliers is on the order of 45,000. This car and the employment it provides would not have been possible at all without the manufacturing efficiencies designed into the vehicle and its manufacturing methods.

There are other less dramatic examples of General Motors' commitment to serving the U.S. consumer with competitively produced domestic cars and components. Let me cite one recent example.

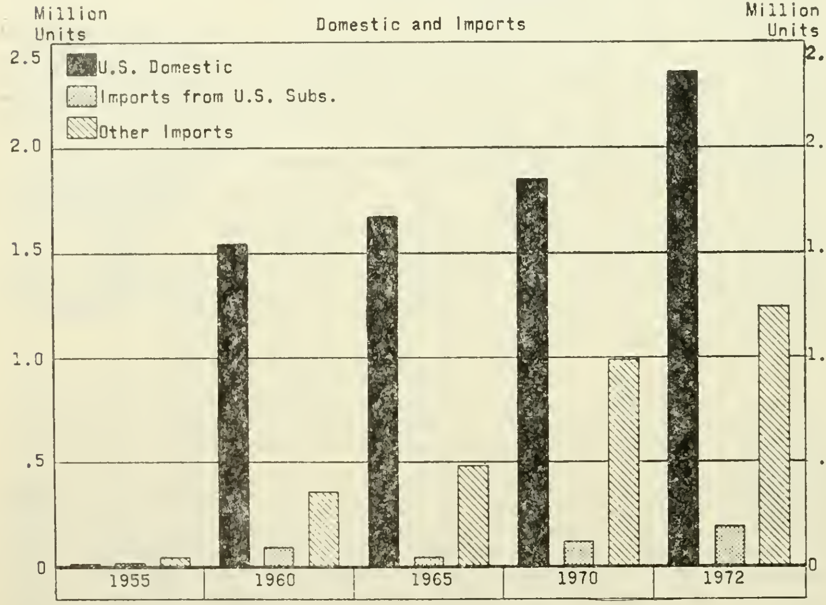
When the Vega was introduced in the fall of 1970, the three- and four-speed manual transmissions were imported from our West German subsidiary, Adam Opel. As the demand grew for the Vega and Opel vehicles for which this transmission is used, General Motors had to decide whether to increase capacity in Germany for both the domestic German market and for export to the United States, or to produce its U.S. requirements at home. With an expanding domestic volume potential, adequate to permit U.S. production on a competitive basis, manual transmission production to meet U.S. needs was launched in Muncie, Indiana, with consequent benefit to other U.S. suppliers.

Other U.S. manufacturers have also been responsive to meeting customer demands for cars smaller than the traditional U.S. standard car. The result is that the buyer of a small car in the United States today has a wide range of domestic and imported cars from which to choose. As is evident from Chart 9, U.S.-produced small cars accounted for about 2.4 million units in 1972, compared with total small car imports of 1.4 million units.

Chart 9

U.S. SMALL CAR SALES

Domestic and Imports



GENERAL MOTORS IMPORT SALES

There is one additional facet of General Motors worldwide operations relevant to the subject matter of the Subcommittee inquiry. General Motors together with other U.S.-based automobile companies have imported into the United States cars built by their overseas subsidiaries. In 1972 these imports accounted in total for 187,000 units, 13.1% of total imported passenger cars and about 2% of total U.S. passenger car demand. General Motors has distributed the Opel, manufactured in Germany and sold by Buick dealers in the United States. In 1972 some 60,000 Opels, 4.2% of total imported cars and 0.6% of total U.S. car sales, were purchased by U.S. buyers.

The distribution of Opel cars in the U.S. together with the vehicles produced by the overseas subsidiaries of other U.S. based automobile companies expanded the range of product choice available to U.S. buyers. What the choices of these buyers would have been had these cars been withheld from the United States is pure conjecture. Given the aggressive development of the United States market by other importers, the exchange rate advantage they have enjoyed and their highly favorable labor costs, it is fair to assume that other importers would have filled a large part of the void created if the products of U.S. overseas subsidiaries had been withheld.

The distribution of Opel cars in the U.S. gave General Motors broader participation in this expanding sales opportunity. In addition, the availability of this car permitted General Motors to take advantage of the same economic factors which have supported imported car sales generally.

The success of the Vega and General Motors' other smaller cars does not, in our view, preclude the continuing sale of the Opel to those buyers who prefer it. Competition means offering the buyer the widest choice economically possible. This is as valid domestically as it is abroad. It is the basic reason why the continuing efforts of our government to reduce barriers to free trade and the free flow of investment funds deserve our full support.

COMPLEMENTATION

The Committee may also be interested in one further trend in the development of multinational business beginning to attract public notice. I refer to the process of complementation, which is a recent, but highly promising approach to using the resources of multinational business to serve the world market. In many developing nations, local sales are too small to achieve the full economies of scale made possible by mass production. The result is that vehicle costs in these areas have been high. Prices have been beyond the reach of all but a few citizens.

Complementation provides a means for overcoming this obstacle. With a complementation program, a multinational company can provide component manufacturing in each of a number of participating small countries. By specializing the output of one country on given vehicle components, some economies of scale are realized. The producing country earns foreign exchange for the purchase of assembled cars from the sale of these components to another country where final assembly of the vehicle is provided. The latter country also acheives some economies of high volume assembly. The final result is lower costs and reduced prices in all the participating nations.

Complementation also opens up additional market opportunities for advanced countries. For example, the basic transportation vehicle being built for use in underdeveloped countries in the Pacific uses a small engine supplied by Vauxhall. Capital equipment for the manufacture of components and for their assembly is being supplied from U.S. sources. As we look to the future and the needs of developing areas for improved transportation, we are hopeful that in complementation multinational business has found an effective and commercially viable new tool.

THE POTENTIAL OF MULTINATIONAL BUSINESS

The General Motors experience provides convincing evidence that in a climate of freedom a multinational firm can be an instrument for improving the material well-being of our citizens at home and people throughout the world. It is General Motors goal to provide the buyer in the United States with the products he demands at competitively established prices. It is also our goal to provide buyers in other parts of the world with the type of cars made in the United States or overseas that they demand and to provide the service and other facilities required to make a complex machine function effectively.

General Motors view is well summarized in Mr. Donner's concluding lecture of his 1966 McKinsey series at Columbia University. I would like to quote three brief paragraphs.

"The world-wide industrial enterprise is a powerful force for economic growth which transcends national boundaries but respects national goals. It strives to serve a variety of diverse markets efficiently. In being an active and an adaptive participant in the industrial growth of the world, it seeks to advance the economic interests of every country in which it participates.

"The world-wide enterprise is a force that can be used to bring the advanced technology of products, materials, methods and processes quickly and efficiently to the service of nations throughout the world; it can impart new labor skills to populations; and it can provide the best in marketing techniques and in management methods and talent.

"In short, the world-wide enterprise is potentially a most effective element in a world-wide desire for economic growth. Used well in an environment of freedom, it offers a potential unlimited today and in the years ahead. It provides an important element in the search for world peace. These are the objectives which constitute the ultimate challenge and the promise of world-wide industrial enterprise."

III. QUESTIONS OF SPECIAL INTEREST TO THE SUBCOMMITTEE

The Subcommittee has asked us to address ourselves to a number of specific questions. The first question is:

"What can be done to improve the competitive position of U.S. industry in world markets and to create additional employment in the United States, and what contributions can multinational companies make to this end?"

In 1972 U.S. merchandise trade was in deficit for the second time in this century and the deficit was above $6 billion. This is a very serious problem.

In approaching the problem, however, I would like to discuss briefly what is meant by "competitive position of U.S. industry" and to review the contributions the multinational companies are currently making.

To use the U.S. balance of merchandise trade as the sole criterion of U.S. competitiveness, as some observers appear to do, is very misleading and would lead to trade policy changes detrimental to the best interests of the United States in the long run. U.S. industry is competing in the world market through both exports and overseas production. Where there is an export opportunity, the multinational firm is in an excellent position to realize its full potential. Where for economic or political policy reasons, this avenue is closed, it may be able to compete by producing overseas.

There is no question that, on the average, U.S. multinational corporations have been traveling very rapidly along both routes. For example, the survey by the Emergency Committee for American Trade has shown that between 1960 and 1970 U.S. multinational corporations increased their export sales at only a slightly lower annual rate than the sales of their overseas affiliates increased. With the variety of impediments—political and economic—to expanded exports, this is a remarkable record.

Furthermore, the trade surplus of multinational companies—that is, the excess of exports from the United States over imports to the United States—more than doubled in this ten-year span. Surely, this is the opposite of what one would expect if the overseas production of the multinational corporations had been at the expense of their exports. Finally, the latest study on the multinational corporation, that conducted for this Subcommittee by the U.S. Tariff Commission, has shown that ". . . there is a fairly close association between levels of foreign investment and levels of U.S. exports—that is, the industries which are the largest direct investors abroad also tend to be the generators of the larger amounts of U.S. industrial exports, and vice versa for the less important foreign investors." These are the facts. No doubt there are isolated exceptions, but the record is clear that there is no inherent contradiction between the growth of U.S. exports and the expansion of U.S. multinational production.

The real question is: What can be done to increase the exports of purely domestic firms?

It has often been suggested that U.S. business should know a great deal more about the U.S. export potential. In spite of the enormous flow of statistics generated every year, evidence indicates that many firms have not given adequate consideration to the opportunities in foreign trade. A 1968 study by the Conference Board concluded that U.S. exports adapted well to the changing mix of world trade demand since 1956. At the same time, the study found that U.S. exports to countries with the fastest growth offered a great potential to be tapped. We must face the fact that countries such as Germany and Japan are aggressively searching for new areas to sell their products. If we as a nation wish to export more, and I believe we should, then we must be prepared to devote more effort to this task.

For its part, General Motors is keenly sensitive to overseas sales of its products. Over the years the opportunities have been the subject of searching review. In the future, rising incomes overseas and the correction of the exchange rate imbalances can provide an improved competitive base for our products. The reduction and ultimate removal of tariff and non-tariff barriers against U.S. produced cars is also essential. Hopefully, the forthcoming GATT negotiations will make progress toward the removal of these barriers which could contribute to some increase in U.S. automotive exports.

Neverthless, a realistic appraisal of our export opportunity must recognize that providing the U.S. buyer with the types of cars he demands is a first priority of U.S. manufacturers. The high landed cost of intermediate and standard size U.S. cars in relation to family income in most overseas countries is a continuing market fact. The relatively short driving distances in areas such as Europe and Japan, as well as narrow roads and very high fuel cost overseas, will continue to be competitive constraints. The removal of artificial barriers to trade will permit an expansion of overseas demand for U.S. cars, but some of the underlying economic considerations will continue and must be squarely faced.

The basis of any major effort to increase U.S. exports is the need to accelerate productivity gains. Americans enjoy the highest standard of living in the world. To maintain and improve that standard, the urgent need now is to improve the world competitive position of our exports through greater productivity—not to erect barriers to imports. If we are to take a constructive market-expanding approach, there is no substitute for sound fiscal and monetary policy and no substitute for the incentives which encourage investment in new technology and innovation.

Finally, the Report of the Commission on International Trade and Investment Policy, which was issued in 1971 and which we support, has numerous suggestions for improving the U.S. trade position. For example:

1. "International efforts to remove foreign barriers to U.S. trade."
2. "International efforts to limit the use of indirect export subsidies."
3. "A much higher level of government support for research and development directed specifically to industrial objectives, as other countries are doing."

Your second question is:

"To what extent do foreign trade barriers and the actions of foreign governments encourage the shift of American productive facilities and technology to other countries, and how should these problems be treated?"

The phrase "shift of American productive facilities and technology" does not accurately describe the multinational development of General Motors. Our goal has been to serve both the domestic and overseas markets with the products each wants and needs and to do this as efficiently as possible.

This is not to deny, as was discussed in the first part of this statement, that foreign trade barriers and the actions of foreign governments have been a major influence in determining the location of our overseas facilities. In most developing countries high tariffs, extensive quantitative restrictions, and far-reaching exchange regulations are the rule rather the exception.

As these countries reach higher levels of development and higher incomes, hopefully they can move toward a freer trade policy. Brazil, for example, with its great economic potential, eventually can expect to have an efficient automotive industry. It should be able to lower its own trade barriers and increase its participation in world automotive trade on a competitive basis.

In the already industrialized countries such as Japan and those in Europe, substantial progress is being made to reduce trade barriers and open up a broader export opportunity for products made in the United States. I can assure the Committee that General Motors will make every effort to seek out new opportunities to market our products abroad. This is not limited to motor vehicles. We are actively seeking sales opportunities for products such as our locomotives, earth moving equipment, diesel and gasoline engines, heavy duty transmissions and marine equipment. It seems certain that other multinational firms will respond promptly and in a similar way.

The third question is:

"What will be the competitive position of our basic manufacturing industries 10 or 20 years from now if our present tax, trade and antitrust laws continue to be essentially unchanged? What policies should the United States adopt to ease the effects of economic dislocations while seeking improvements in our competitive position in world trade?"

Forecasting is always difficult and sure to be second-guessed with the benefit of hindsight. With this *caveat* in mind, let me suggest a few possibilities.

First, these U.S. laws are not great deterrents to our competitive postition—we should make sure they do not become so. In any event, they are only one aspect of a very complex situation. Furthermore, unilateral action by the United States with regard to these laws cannot solve our trade, payments and currency difficulties. For example, if the United States were to lower its own trade barriers without reciprocal action, then our position will not be improved—instead it could worsen. Realistically, we must also assume that if the United States increases its barriers to foreign trade, other countries will take a similar course. In our judgment, our present difficulties will probably continue unless we in the United States can increase productivity and make greater progress in controlling inflation here at home.

Second, if our tax laws move generally in the direction of penalizing investment as opposed to consumption, then our industrial efficiency is likely to suffer and we shall fall behind our foreign competitors.

Third, the trend toward the freer movement of goods between countries evident in the postwar period would be reversed by some current proposals, such as S. 151, the proposed Foreign Trade and Investment Act of 1973. If enacted, it would impose tax penalties on multinational firms and permit the adoption of import quotas.

From a tax policy standpoint, S. 151 would be undesirable since it would use the tax laws to penalize U.S. firms operating abroad in the expectation of earnings that, in part at least, flow back to the United States. For example, one provision of this bill would repeal the long-standing credit against U.S. income tax for foreign taxes imposed on income from abroad. Adoption of this provision would result in full double taxation of foreign subsidiary income. Under this approach, the United States would tax foreign operations of U.S. business more heavily than any other major country taxes the foreign business activities of its own companies. Without the U.S. foreign tax credit, at generally prevailing tax rates in industrial countries, after-tax income from U.S. overseas subsidiary operations would be about half the income of comparable local companies or the overseas subsidiaries of companies based outside the United States. This could only hurt the United States' ability to operate in the world market, reducing exports of products, machinery and equipment needed in those areas.

Another provision of S. 151 calls for current taxation by the United States of foreign subsidiary income when earned, rather than when remitted to the U.S. parent company as a dividend. No other major industrial country taxes on this basis. Were such a tax enacted in the United States, it would reduce the resources for expansion by U.S. firms, particularly in the developing countries whose goal is to encourage industrial development. To assist in such development efforts has also been a continuing goal of the United States foreign economic policy.

With respect to import quotas, experience has shown them to be generally undesirable. Their implementation invites countermeasures by other countries further restricting American exports. The history of international trade provides clear evidence that any short-term gain in the foreign trade balance through import quotas or other barriers would probably be more than offset in the long run by increased barriers to U.S. exports.

On the subject of antitrust, I believe the cause of freer trade can be advanced or retarded by the varying interpretations of different governments of their antitrust laws. Clearly, antitrust enforcement to prevent cartel agreements which allocate sales territories and restrict competition is important in order to eliminate such barriers to world trade. America's ability to compete in the world market would be handicapped if our antitrust laws should inhibit growth and penalize success while other countries encourage their business to merge and grow.

As to adjustment assistance, U.S. labor and business are in a continuing process of adjusting to rapidly changing world trade conditions. We concur in the need to provide greater assistance to companies and their employes subject to dislocation as a result of these changes. We view the suggestions made by Sen. Ribicoff in his report and by the Williams Commission to be constructive.

The problem, of course, is to distinguish between the difficulties of a particular firm resulting from poor management and those uncontrollable competitive factors resulting from the reduction of trade barriers. When an entire industry and its employes are affected, there is a case for assistance. An adequate assistance program, by spreading the cost of adjustment to change in national trade policy, is appealing on simple grounds of equity. Moreover, it would help to reduce the understandable resistance to change by those who would be directly affected.

The final question is:

"Are there realistic alternatives to the solutions embodied in the Hartke-Burke legislation?"

General Motors does not believe these proposals are in fact solutions. We continue to believe that trade barriers should be lowered rather than raised. It is in the best interests of every country including our own to encourage the expansion of world trade and investment. Whenever markets have been opened, American industry has been willing——indeed anxious—to enter them.

The President has proposed that current controls over direct investment and the interest equalization tax be phased out. These would be steps in the right direction. If we analyze the United States balance of payments deficit in recent years, it is clear that income from foreign investments has been the major plus factor. Dividends and interest on foreign investments have exceeded the outflow of dollars for direct foreign investments in every year.

The record is clear that the expansion of investments abroad creates more job opportunities in the United States—not less. It is a well-documented fact that U.S. investments overseas are directly and highly correlated with U.S. exports of our products. At the time the investments are made by U.S. companies, they are accompanied by large shipments of U.S. made capital goods to foreign countries.

Finally, the expansion of overseas investment need not require an outflow of dollars. In General Motors case, reliance on overseas capital markets to augment earnings retained for investment overseas has been our standard business practice for the past twenty-five years in order to minimize exchange risks. It has also been our policy to remit overseas earnings promptly, retaining overseas only those resources necessary for maintaining and expanding the subsidiary as an effective competitor. These practices were adopted to avoid the speculative risks of fluctuating exchange rates. Over most of the postwar period, General Motors earnings remissions from overseas subsidiaries have been about the same percentage of total overseas earnings as General Motors dividend payments to our stockholders—or about two-thirds.

We are aware of the many allegations about the role of multinational firms in precipitating the recent world monetary crisis. Let me state unequivocally and in the strongest possible terms that General Motors has not and will not speculate in the world money markets. As a long-term member of General Motors Financial Staff and as a senior officer, I know from personal experience that this policy has been scrupulously observed. We are a manufacturer, not a speculator.

Mr. Chairman, you asked for General Motors recommendations as to U.S. trade problems. We have attempted to be responsive to your request and are prepared to offer six points for your consideration. They are:

1. Reciprocal tariff and non-tariff barrier reductions

The forthcoming GATT negotiations will provide a new opportunity to build on the constructive base of reciprocal tariff reductions that have resulted from the Kennedy Round. The success of this new round, which should also consider non-tariff barriers, is critically important for two reasons. First success is essential to offset the groundswell of protectionism in many parts of the world—including the United States. Second, success is essential to opening up the competitive opportunity for United States exports. Trade, based on the sound principle of comparative advantage, benefits buyers and sellers alike. We recognize that this is an ideal and is often at variance with short-term national goals. Nevertheless, there are grounds for optimism in the progress that has been made. The steady progress made within the European Community is also a reason for hope. We must not lose these gains but rather build practically and resolutely on the advances already achieved.

2. International monetary adjustments

The need for new international monetary mechanisms is widely recognized and need not be discussed in detail in this paper. As a U.S. based vehicle manufacturer, General Motors is aware of the competitive handicap past parity rates of exchange have imposed on the sale of U.S. produced products in the export market. In addition, the previously pegged exchange relationship gave imported cars an advantage in the U.S. market. Since almost 80 percent of the overseas cars imported into the United States were sourced in Germany and Japan where the largest exchange rate adjustments have been made, the impact on the domestic industry has been substantial. The exchange rate adjustments made following the Smithsonian Agreement 14 months ago contributed to reducing the imported cars share of total U.S. passenger car sales from 15.2 percent in 1971 to 14.8 percent in 1972. The decline in the import car share in 1972 was the first such decline in the past ten years. With the second dollar devaluation in February, and the decision of the Japanese government to "float" the yen and the revaluation of the German mark, vehicle price relationships may better reflect underlying economic realities. We are hopeful that, out of the current work of the Group of Twenty, mechanisms can be established to permit more timely and orderly adjustment of exchange rates in the future.

3. Improved productivity in the United States

As important as trade and investment policy and monetary reform are there must also be a renewed dedication in the United States to improving productivity.

Ultimately, this is the key to meeting foreign competition. Advanced nations in Europe and Asia have learned the lesson of productivity and have been making impressive gains. As the President recognized when he appointed the Productivity Commission, the only certain way to improve the material well-being of our people and strengthen the nation's competitive position in world markets is by improving our efficiency in the use of our great resources.

As the work of the Productivity Commission makes clear, many avenues are open for using our resources more effectively. Employe motivation, for example, is an area which General Motors is studying intensively. A number of efforts—including improved communications, educational assistance and work rotation schemes—have been launched which may give us new insights to ways to overcome excessive absentee rates and improve employe attitudes.

In addition, General Motors is continuing to give top priority to the design of its products and to manufacturing methods which improve product quality and production efficiency. The size of our cars and the efficiency of our engines are being carefully examined in relation to national energy resources. Intensive research is being directed toward new tools, better materials, and better fabricating techniques.

4. Favorable investment climate

All of these efforts require large investments. General Motors expenditures for plant and equipment in the United States have averaged about $850 million annually since 1965. Plans for 1973 will require an increase from this high rate of expenditures.

Providing a favorable investment climate is, therefore, an integral part of the nation's effort to achieve a high rate of productivity advance. There is a role for tax policy to play. Specifically, the accelerated depreciation provisions and the investment tax credit should be retained as permanent features of our tax law—rather than on-again-off-again proposals which make long-term planning of business investment more difficult.

5. Emphasis on U.S. exports

There is need for greater emphasis on the importance of exports to our economy. In one sense, the large American market has been a disadvantage, making export sales to many individual countries seem small by comparison. As matters stand now, America's strength in the world market rests on the activities of a relatively small number of companies. More medium and small companies should and could become interested if they can be made aware of the advantages of sales abroad. In this educational effort the government has a leadership role to play. An effort to meet this challenge by expanding U.S. trade and investment is surely not through inward-looking and repressive proposals which can only serve to trigger retaliation abroad.

6. Economic adjustment assistance

Finally, General Motors believes that economic adjustment assistance has potential merit as one means of responding to problems of dislocation related to changing world trade.

The proposal on the subject offered by you in the last Congress, Mr. Chairman, was directed toward providing a remedy to some of the problems that are troubling all of us. We appreciate that there are difficult administration issues that must be resolved. We believe your proposal deserves serious study.

Mr. Chairman, in concluding this statement I want you to know that I am personally most appreciative of this opportunity to present General Motors views to this Subcommittee. The issues you now have under study and the policy proposals adopted are critically important to our nation and the peaceful and prosperous growth of a truly world economy. We dare not turn back from a world which is seeking to find solutions to many urgent problems. In meeting this challenge we are convinced that the multinational firm—competitive world enterprise—offers a resource whose value we are only beginning to sense. Speaking for one multinational firm, General Motors, we hope the policies you adopt will draw forth the best we have to offer.

UNITED STATES-CANADA AUTOMOTIVE TRADE AGREEMENT—PREPARED FOR THE COMMISSION ON INTERNATIONAL TRADE AND INVESTMENT POLICY

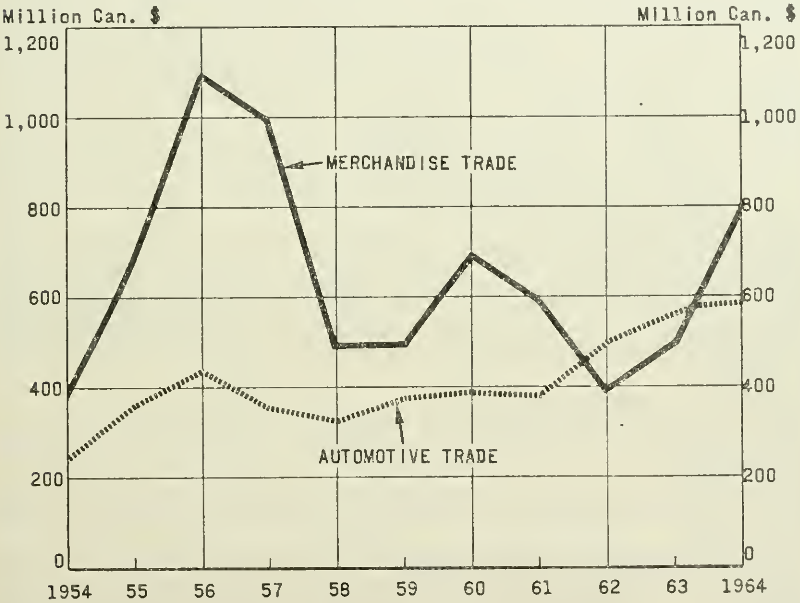
BY HENRY W. WELCH, COMPTROLLER, GENERAL MOTORS CORPORATION, FEBRUARY, 1971

This report represents an evaluation of the United States-Canada Automotive Products Agreement of 1965 as implemented in the United States by the Automotive Products Trade Act of 1965. The evaluation includes a summary of events leading up to the Agreement, a review of the Agreement itself, a discussion of the Agreement's effect on industry production rationalization, U.S.-Canada car price differentials, employment levels, automotive trade balance, labor rates, investment, General Agreement on Tariff and Trade, and possible areas for change.

Events Leading up to the Agreement

Canada had been experiencing an adverse balance of merchandise trade with the United States for many years with automotive products being an important factor in this adverse trade balance. The following chart shows the relationship of the automotive products to the total Canadian balance of merchandise trade with the United States for the period 1954 through 1964 as reported by the Dominion Bureau of Statistics.

CANADIAN BALANCE OF MERCHANDISE TRADE WITH UNITED STATES
CALENDAR YEARS 1954 - 1964
(BALANCE IS U.S. FAVORABLE - CANADA UNFAVORABLE)



Source: Dominion Bureau of Statistics

Because automotive trade was such a large factor in Canada's unfavorable merchandise trade balance, it was natural for the Canadian government to focus their attention there. During the period 1954 to 1964 on finished vehicles import duties of 17.5 percent were generally in effect. While original equipment parts were generally dutiable at rates ranging up to more than 25 percent duty-free treatment was granted on certain components of a class or kind not made in Canada, providing that the Canadian automotive producers attained a minimum Commonwealth content of 60 percent in passenger cars and 50 percent in trucks produced in Canada. These duties protected the Canadian automotive industry but at the expense of efficiency. Canadian production facilities were similiar to those in the U.S., but the smaller Canadian domestic market coupled with the model diversification required, meant lower economies of scale, higher costs, and higher prices. As a consequence, the growth of the Canadian automotive industry continued to lag relative to the United States, and Canada's automotive trade balance continued to be unfavorable.

In August, 1960 the Canadian government appointed a Royal Commission to study the varied aspects of the Canadian automotive vehicle and parts industries. The Commission's Report became known as the "Bladen Report", after the Commission Chairman, Vincent T. Bladen.

The conclusions and recommendations of the report centered in the content requirement area and the lack of economic competitiveness of Canadian production. It was felt that in order for the Canadian automotive industry to be competitive with the U.S., it must be effectively integrated with the U.S. automotive industry which would require production rationalization between the two countries. ("Production rationalization" is the phrase used to describe the integration and realignment of component and vehicle production in order to attain economies of scale.) While little of this nature was done when the report was published in 1961, the report did become the genesis of subsequent action.

The first move by the Canadian government to reduce the automotive trade imbalance was a Duty Remission Program started in November, 1962. An Order in Council permitted the recovery of duty on imported automatic transmissions and certain engines to the extent of the value of the increase in the exports of Canadian made automotive products over the previous year's exports.

The second move came in November, 1963, when a new Order in Council, maintaining the same principle to encourage increased exports, extended the duty recovery program to all imported vehicles and most parts.

In June 1954, the U.S. Treasury Department, which had been under some pressure from certain United States parts manufacturers asked for comments from interested parties to aid in their determination as to whether the Canadian Duty Remission Program constituted the payment of a "bounty" or "grant" as defined in the Tariff Act of 1930. If so determined, this Act (Section 303) required imposition of countervailing duties which for all political purposes would have negated the Canadan plan.

The U.S. Treasury Department was understandably hesitant to invoke Section 303 and risk possible retaliation from Canada. It was also evident that Canada was committed to increasing its automotive production, and a failure by the U.S. to recognize this desire would very probably result in additional artificial controls being imposed by Canada.

Some possible controls were a continuation of Canada's duty-remission scheme, a sharp increase in content requirements above the 60 percent level, or an imposition of surcharges (or an increase in duties) on imports. All of the more obvious alternates would impair the trade harmony between the two countries.

The possibility of such alternates resulted in the discussions between the U.S. and Canadian officials which led to the U.S.-Canadian Automotive Trade Agreement.

The Automotive Trade Agreement

The U.S.-Canadian Automotive Trade Agreement was signed by representatives of both countries on January 16, 1965. The stated objectives of the Agreement were threefold:

1. The creation of a broad U.S.-Canadian market for automotive products within which the full benefits of specialization and large-scale production could be achieved.
2. The liberalization of United States and Canadian automotive trade with respect to tariff barriers and other impediments in order that both nations could participate on an equitable basis in the expanding total market of the two countries.
3. The development of conditions in which market forces could operate effectively to attain the most economical pattern of investment, production, and trade.

The Agreement is of unlimited duration but may be terminated by either government by giving twelve-months written notice.

Although the Agreement generally provides for duty-free passage of automobiles and parts, there are a number of important exceptions to the free-trade principle. Several automotive categories, such as tires and replacement parts, are excluded from duty-free treatment. Furthermore, Canada confines the privilege of duty-free automotive imports to the manufacturers of motor vehicles or original equipment parts. (Individuals in Canada who import new automobiles from the U.S. are assessed 15% duty. Used vehicles generally cannot be imported into Canada.)

The Agreement was implemented in Canada by an Order in Council dated January 18, 1965. Related thereto, the Canadian manufacturers were also required to submit to the Canadian Government "Letters of Undertaking" in which they stated they would undertake to do the following four things. The first two requirements are set forth in the Agreement and establish a floor for Canadian production.

1. Maintain the ratio of the net sales of their production of motor vehicles in Canada to the net value of their sales in Canada at not less than the ratio of the model year 1964.

This requirement assured Canada of continued participation in the assembly of vehicles. Failure to meet the required ratio could result in imposed duties on all vehicles imported into Canada by a particular manufacturer during the year.

2. Maintain, in the production of vehicles in Canada, a level of Canadian value added in *absolute dollar terms* which is at least as great as that achieved in model year 1964. As Canadian production of vehicles expands, the relative importance of this requirement obviously will decline.

In addition, the Canadian manufacturers stated they would attempt to increase production in the following manner:

3. Increase the total Canadian value added in vehicles and in original equipment parts by an amount equal to 60% of the growth in the value of passenger car sales in Canada (50% in the case of commercial vehicles).

4. Increase the Canadian value added in vehicles and original parts by a total of C.$260 million over and above that achieved in model year 1964 and that required to fulfill (3) above. The larger commitments included in the C.$260 million were: General Motors, C.$122 million; Ford, C.$74.2 million; Chrysler, C.$33.2 million; and American Motors, C.$11.2 million.

The lack of flexibility in Canadian value added requirements could be a problem area. There appears to be a difference in interpretation as to the termination date of these commitments, with Canada taking the position that the letters are "open-ended" while the U.S. understood the letters to expire on July 31, 1968. In any event, the fixed dollar and/or percentage CVA targets for yearly attainment are not realistic, and should be modified to allow for either a cumulative running average, or a several year period of overall attainment without regard to any given year(s) performance within the period. The need for some kind of flexibility in CVA requirements is because of the highly fluctuating market demand, turn-around time for major changes in production alignment, work stoppages, and the lead time involved in providing production capacity for market growth.

The fulfillment of the above conditions entitles the Canadian manufacturers to duty-free treatment of imports of vehicles and most original equipment components. Prior to the Agreement, duty payments to Canada on automotive products and components amounted to approximately C.$50 million annually.

In the United States, the Agreement was implemented by the Automotive Products Trade Act, which was enacted on October 21, 1965. The Act called for a bilateral liberalization of trade between the U.S. and Canada for the products of a single major industrial sector—a distinct departure from the traditional United States approach of multilateral trade liberalization. It was approved by the United States Congress during a period when conditions were favorable. There was a trade liberalization atmosphere. The United States enjoyed a substantial trade surplus. Furthermore, the automobile industry in Canada is, for the most part, owned by U.S. firms; and the automotive unions in Canada, were affiliated with the unions in the U.S. The legislation was developed and sponsored by the Executive Branch, passed by the House and Senate by a very large majority and signed into law by President Johnson on October 21, 1965.

The U.S. legislation implementing the agreement contains a number of other provisions which deserve mention. The President is authorized to carry out similar agreements with other countries if, in his opinion, such agreements afford mutual trade benefits. One very important ingredient provided by the legislation is adjustment assistance for either firms or workers dislocated by the operation of the Agreement. The adjustment assistance provisions of the Automotive Trade Act expired June 30, 1968. However, the Trade Expansion Act of 1962 contains a similar adjustment assistance provision which continues in effect making available assistance to qualified firms or workers. Finally, the legislation requires an annual report to the Congress concerning the implementation of the legislation.

Recently there is indication that there has been a change in the atmosphere in the U.S. as evidenced by the results of the House Ways and Means Committee Hearings in June, 1970 and the Senate Finance Committee Hearings in December, 1970 on the Trade Act of 1970. Both committees recommended that the U.S.-Canadian Automotive Trade Agreement be terminated if certain suggested changes are not instituted.

How the Agreement has Worked—Production Rationalization

One of the basic objectives of the Agreement is to encourage integration and realignment of production between the U.S. and Canada—by producing optimum volumes of components and vehicles in both countries in order that the productivity of the automotive industry in both countries, but particularly in Canada, will be improved.

The integration which has been accomplished at substantial expenditures for capital and relocation has resulted in an important improvement in economies of scale in Canada resulting from better utilization of facilities. One Canadian manufacturer reduced by almost 50% the different series of passenger cars produced between 1966 and 1972. There has also been a similar reduction in the number of different automotive components such as engines, transmissions, starting motors, etc. The reduction in different models of vehicles and components has enabled the Canadian Manufacturers to use their machinery and equipment more effectively through longer, larger quantity production runs. Thus, many of the low volume items have been relocated to plants where the benefits of high volume can be obtained. This has happened on both sides of the border.

How the Agreement Has Worked—Price Differential

The Trade Agreement has resulted in a significant narrowing of the price differential between the U.S. and Canada for comparable cars, presumably reflecting the greater improvements in Canadian economies of scale which resulted from production rationalization. The following chart shows this price differential on three selected passenger cars which are similar to those vehicles reported in the President's Report to Congress:

COMPARISON OF INTRODUCTORY FACTORY LIST PRICE UNITED STATES VERSUS CANADA[1]

	United States in U.S. dollars	Canada in Canada dollars	Canada over United States	
			Amount	Percent
Chevelle Malibu 2-door hardtop with 8-cylinder engine:				
1964	$2,262	$2,673	$411	18.2
1965	2,272	2,685	413	18.2
1966	2,322	2,686	364	15.7
1967	2,374	2,734	360	15.2
1968	2,469	2,815	346	14.0
1969	2,501	2,832	331	13.2
1970	2,628	2,969	341	13.0
1971	2,760	3,071	311	11.3
1972 (phase II)	2,879	3,207	328	11.4
1973	2,945	3,273	328	11.1
Chevrolet Impala 4-door sedan with 8-cylinder engine:				
1964	2,529	2,986	457	18.1
1965	2,539	2,998	459	18.1
1966	2,597	2,994	397	15.3
1967	2,639	3,034	395	15.0
1968	2,734	3,129	395	14.4
1969	2,801	3,202	401	14.3
1970	2,925	3,336	411	14.1
1971	3,157	3,526	369	11.7
1972 (phase II)	3,644	4,072	428	11.7
1973	3,696	4,124	428	11.6
Buick Riviera 2-door hardtop:				
1964	3,995	5,632	1,637	41.0
1965	4,026	5,682	1,656	41.1
1966	4,127	5,562	1,435	34.8
1967	4,169	5,604	1,435	34.4
1968	4,283	5,033	750	17.5
1969	4,373	5,173	800	18.3
1970	4,534	5,346	812	17.9
1971	4,905	5,611	706	14.4
1972 (phase II)	5,099	5,828	729	14.3
1973	5,134	5,863	729	14.2

[1] The factory list price excludes excise and sales taxes, dealer preparation and handling charges, and transportation charges.

Note: While the 2 Chevrolet models above are and have been produced in both the United States and Canada, the Buick shown has never been produced in Canada, and continues to be sourced from the United States, thus the reduction in the Buick price differential from 41.0 percent to 14.2 percent includes the effect of the elimination of the 17.5 percent duty which was assessed prior to the agreement.

As indicated on the chart, there is not automotive price parity between the U.S. and Canada. Costs in Canada continue to remain higher than in the U.S. This results from many factors including the lower volume of production, duty on certain imported materials such as vinyl cloth and paint, the higher distribution cost, and, in the case of warranty, the duty payments required on those replacement parts sourced in the U.S.

The price narrowing has taken place at the factory level, but the Canadian customer has not realized the full effect of the price narrowing. During the period from 1964 to 1972 there has been an increase in the Canadian tales tax from 11% to 12% while during the same period the U.S. Excise Tax has been reduced from 10% to 0%.

How the Trade Agreement has Worked—Employment

During the period after the Agreement was signed through 1970, petitions for adjustment assistance in the U.S. under terms of the Agreement was filed by 21 groups of workers. Certifications were issued in 14 of the cases covering approximately 2,500 workers in six states. This corresponds to 8,600 Canadian workers who were certified eligible for assistance payments under a similar Canadian provision. This relatively low volume in relation to the total industry employment and its short duration indicates that the Agreement did not result in any extreme or significant employe dislocation.

Furthermore, the total employment in the automotive products industry has grown substantially since 1964 as shown on the following chart.

TOTAL AUTOMOTIVE EMPLOYMENT

[In thousands of employees]

	United States	Canada
1964	752.9	69.3
1965	842.7	80.0
1966	861.6	84.9
1967	815.8	84.1
1968	873.7	83.4
1969	913.5	92.1
1970 [1]	[1] 805.1	83.4
1971	873.8	93.7
Total increase 1964 to 1971	120.9	24.4
Percent increase 1964 to 1971	16.1	35.1

[1] 1970 affected by strike.

Source: President's Report to Congress.

Based on the above figures, while automotive employment in the U.S. has risen 16% since 1964 compared to a 35% increase in Canada, the total U.S. employment has risen about five times that in Canada.

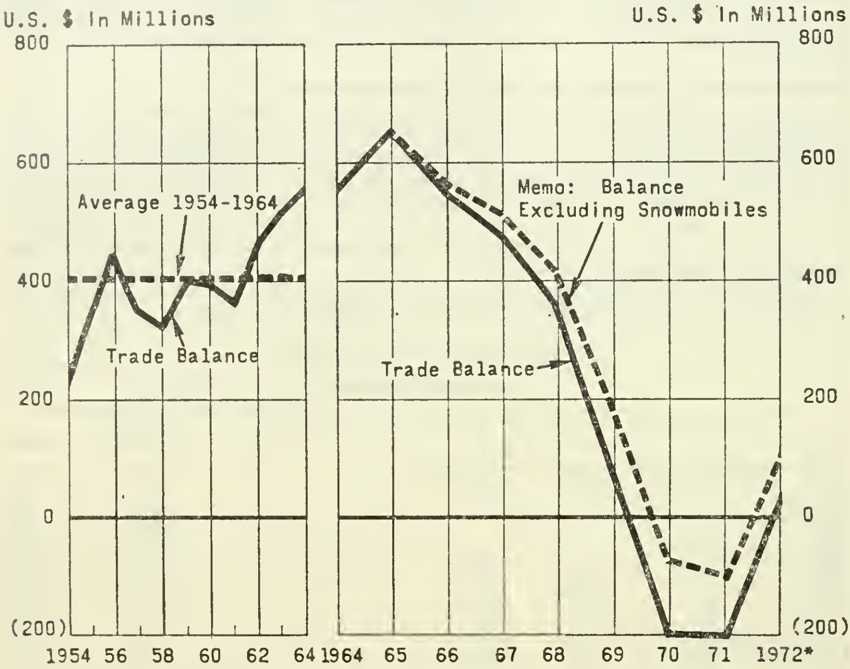
How the Agreement has Worked—Trade Balance

When the Agreement was effected, it was expected that the Canadian automotive market would grow at a faster rate than that of the U.S. with the result that under these conditions, the favorable U.S. balance could be approximately maintained. However, the market growth has not followed the expected patterns and because of this and other reasons, there has been a reduction in the favorable U.S. automotive trade balance since 1965.

Furthermore, the measurement of the automotive trade balance has been subject to a great deal of discussion. Differences in tariff classifications between Canada and the U.S., and the use of fair-market values instead of actual transaction values have resulted in differences in published trade balance statistics. To resolve the problem, a U.S.-Canadian Study Group was established in conjunction with the current trade agreement discussions which resulted in an agreement in principle to use a more uniform approach in the statistical measurement of automotive trade.

The U.S. Department of Commerce has developed actual transaction values from published Bureau of Census and Dominion Bureau of Statistics data for years 1964–1971, and has included the results in the Sixth Annual President's Report to Congress on the operation of the Agreement. The following charts show the U.S. automotive trade balance with Canada for years 1954 through 1971. Preliminary data for 1972 are also shown. The balances shown do not include the related trade in such items as automotive machinery and equipment and tooling which is generally favorable to the U.S.

U.S. - CANADA TRADE IN AUTOMOTIVE PRODUCTS
YEARS 1954 - 1972



Source: U.S. Bureau of Census

Source: Presidents Report to Congress.

*1972 Preliminary Data

During the period 1954 through 1964, prior to the Agreement, the U.S. favorable automotive trade balance with Canada averaged slightly over $400 million per year.

In order to determine the effect of the automotive manufacturers' action on the trade balance after 1964, it is necessary to exclude the effect of snowmobile net imports into the U.S. which have increased from practically nothing in 1964 to about $100 million per year currently. This effect of snowmobiles may be somewhat temporary in nature and conceivably could be met in the future by increased U.S. production or the market could become stable with a normal growth rate beyond that point. However, even excluding the snowmobile imports, as shown by the broken line on the prior chart, the favorable U.S. balance will have declined to about 100 million for the 1972 calendar year.

When the Agreement was signed, it was anticipated that the favorable trade balance could be reduced by a C.$260 million (U.S. $241 Mil.) which was the amount by which the Canadian vehicle manufacturers agreed to increase Canadian value added—but that this reduction would be offset to a large extent by the U.S. content in the growth of the Canadian automotive market.

In the Hearings before the House Ways and Means Committee on the Automotive Products Trade Act in April 1965, it was stated that the Canadian automobile market growth was projected at 8 percent a year. The effect of this 8% growth rate probably could offset the C.$260 million reduction which then would have resulted in the trade balance staying substantially the same. This assumption was based on the fact that with a 60% Canadian content requirement in market growth, there would be 40% U.S. content in the increased vehicles used in Canada. So as the Canadian market grew, the U.S. favorable trade balance would grow by 40% of the additional market. However, in retrospect, the market has not grown at the 8% rate and the trade balance has declined.

An analysis of the net vehicle shipments from Canada to the U.S. appears to indicate that Canadian exports have been maintained at levels higher than originally anticipated.

The following chart includes a summary of the completed passenger cars shipped betwen the two countries in addition to Canadian car production and new car registrations for the period 1964 through 1972.

CANADIAN PASSENGER CAR HISTORY (NORTH AMERICAN TYPE)

[Units in thousands]

			United States		
	Production [1]	New car registration [2]	Exports to Canada [1]	Imports from Canada [1]	Net exports (imports)
1964	561	539	15	11	4
1965	711	609	46	32	14)
1966	702	609	115	147	(32)
1967	721	585	239	311	(72)
1968	901	622	308	473	(165)
1969	1,036	617	291	676	(385)
1970	940	478	253	697	(444)
1971	1,074	546	355	795	(440)
1972	1,138	598	337	784	(447)
Total change, 1964 to 1972	577	59	322	773	(451)

[1] Source: Dominion Bureau of Statistics.

[2] Source: R. L. Polk, Ltd.

Note: 1972 Data is preliminary.

There are two factors which have caused the change in U.S. imports from a net favorable of 4,000 in 1964 to an unfavorable 447,000 units in 1972. First, certain automotive manufacturers installed a disproportionately large share of small-car production and assembly facilities in Canada as a part of production rationalization. This, and the smaller car market increase has resulted in more vehicles being built in Canada for shipment to the United States than could be anticipated when the Agreement was made. In 1965, the government estimated the Canadian Automotive Market would grow by 8% annually. Based on the 1964 North American-type passenger car registrations of 539,000 in Canada, the 8% growth would have generated a market of 970,000 passenger car registrations in 1972. However, the actual 1972 registrations of North American-type passenger cars were 598,000 vehicles, an increase of 11% for the period 1964 to 1972 or an equivalent annual growth rate of 1.25%. If the actual North American-type market growth would have approached 8% rate anticipated in 1965, the current U.S. trade balance with Canada would have been substantially more favorable.

The impact of foreign imports is a significant factor in the North American-type market growth rate not reaching the levels anticipated. The following chart compares the registrations of North American-type passenger cars and foreign imports for the years 1964 through 1972.

CANADA NEW CAR REGISTRATIONS

[Unit amounts in thousands]

	North American type (units)	Foreign type (units)	Total (units)	North American type percent of market
1964	539	68	607	88.8
1965	609	78	687	88.7
1966	609	75	684	89.1
1967	585	83	668	87.6
1968	622	116	738	84.3
1969	617	139	756	81.6
1970	478	158	636	75.2
1971	546	199	745	73.3
1972	598	215	813	73.6
Increase 1964 to 1972:				
Units	59	147	206	
Percent:				
8 years	11	216	34	
Annual growth rate	1.25	15.00	4.00	

Source: R. L. Polk, Ltd.

As indicated in the chart on page 16, total Canadian passenger car registrations increased 34 percent from 1964 to 1972—or an annual growth rate of approximately 4.0 percent. If the North American-type vehicles had retained the 88.8% share of the market obtained in 1964, the 1972 registrations would have been 722,000 such vehicles, an increase of 124,000 over the 598,000 actually registered. Additional North American-type sales of 124,000 vehicles would have increased the favorable U.S. automotive trade balance with Canada. The degree of increase is speculative and would have been dependent on several factors such as: the make of vehicles sold, whether the vehicles were assembled in the U.S. or Canada, the percent of U.S. produced components included, etc. However, it seems reasonable to assume that the favorable U.S. automotive trade balance with Canada in 1972 would have been $200 million, or more, higher. Thus, the increased importation of non-North American-type cars has had an adverse effect on the U.S. automotive trade balance with Canada. The recent change in world currency values should help this situation.

It should be pointed out that the total automotive trade between the U.S. and Canada has increased from about $700 million in 1964 to over $9 billion in 1972 as shown on the following table:

U.S. AUTOMOTIVE TRADE[1]

[Dollars in millions]

	Exports to Canada	Imports from Canada	Total trade
1964	$639	$76	$715
1972, preliminary	4,600	4,492	9,092

[1] Excluding snowmobiles.

At this level of trade, changes in imports and exports resulting from market variations in the demand for certain car models or changes in the demand for certain options and accessories can substantially affect the trade balance and cause it to vary widely from year to year.

How the Trade Agreement has Worked—Labor Rates

In 1967, the United Auto Workers negotiated "wage parity" with the U.S. for their members in Canada to take place in steps with the final step becoming effective in June of 1970.

How the Agreement has Worked—Investment

The level of capital expenditures by automotive manufacturers has increased on both sides of the border. These expenditures for facilities and rearrangement expenses were necessary in order for the automobile manufacturers to take advantage of the integration and production rationalization benefits offered by the Agreement. It cannot be determined, of course, how much of the investment which has taken place resulted from the Agreement and how much would have taken place without the Agreement. However, there cannot be any question but that the production rationalization and integration effected has resulted in a greater amount of investment than would have occurred without the Agreement. In this regard, it should be noted that cancellation of the Agreement would result in a considerable cost to manufacturers who would have to spend many millions of dollars to "undo" the production rationalization which has taken place.

How the Agreement has Worked—GATT

The General Agreement on Tariff and Trade (GATT) provides for the extension of unconditional most-favored-nation treatment with respect to customs duties levied on products imported from the GATT contracting parties. Since the Automotive Trade Agreement allowed duty-free entry of automotive products only from Canada (subject to certain conditions), the U.S. had to obtain a waiver of its GATT obligation. One of the provisions of the "open-ended" waiver, which was approved on December 20, 1965, provided for consultations between the U.S. and any contracting party which believed that elimination of U.S. customs duties on an automotive product imports from Canada had created a significant diversion of U.S. imports of that automotive product from the requesting country to Canada. Although no request for consultations has been received by the United States to date, the possibility of such a request exists.

Possible Areas for Change

With regard to the total free-trade concept as it affects automobiles, there are several problem areas which should be resolved. For example:

1. Canada could reduce or eliminate the sales tax on new vehicles. Currently Canadian citizens pay a 12% tax while the comparable U.S. excise tax has been entirely removed. This type of an effective price reduction could tend to stimulate the Canadian market growth.

2. Canada could allow duty-free entry for all materials used in the production of motor vehicles and parts. For example, paint, bolts of vinyl and cloth, bulk type rubber products, and coiled wire are some of the materials subject to Canadian duty. While not all of these items are purchased by Canadian manufacturers from the U.S., duties on necessary material imports do increase the Canadian production cost. (The Canadian manufacturers do get "duty drawback" for dutiable items included on vehicles shipped to the U.S.)

3. Duty on service parts could be eliminated by Canada and the U.S., whether the parts are to be used to service past or current models. Duty on service parts increases the cost of repair to customers and also increases warranty cost. Furthermore, duty on current model service parts results in a mechanical and an administrative problem. If the sole source of a part is either Canada or the U.S., paperwork on shipments has to be segregated between service parts and original equipment parts so that the proper duty can be determined.

Summary

The automobile industry has historically been in favor of Free-Trade. Its position was reaffirmed on June 10, 1968 in A Statement of Policy by the Automobile Manufacturers Association (now the Motor Vehicle Manufacturers Association) and is frequently restated by various Association executives.

"The AMA historically has promoted and supported efforts to expand trade among countries, in the belief that the principles of free competition and private enterprise are as valid in the world market as they are in the domestic market. Primarily among AMA policies is the continued support for the removal of restraints of international trade both in the tariff and nontariff categories."

Further in January, 1973, the Executive Committee of the Motor Vehicle Manufacturers Association stated the following position.

"MVMA members support continuation of the Agreement and believe that it is in the interests of both the U.S. and Canadian Governments to reach an accord on outstanding differences over its terms."

The U.S.-Canadian Automotive Trade Agreement represents a movement toward "free trade" and was a novel and different approach—not without problems—to resolving a trade problem. The proximity of the two countires, the production and marketing of identical products by the same manufacturers, and the common labor affiliation made the Agreement possible.

The productive capacity of the automotive industry has been realigned to the extent possible to date, which has resulted in greated economies of scale in Canada. Reflecting this improvement, the manufacturers' price differentials between Canadian and U.S. vehicles have been narrowed substantially and will continue to narrow; but this has been partly offset by increased tax differentials. Parity has been achieved in labor rates in the industry.

The favorable U.S. balance of automotive trade with Canada, which averaged about $400 million in the ten years prior to the Agreement has been reduced more than expected. This results in part from the diversion to foreign imports of a high percentage of a lower-than expected automotive growth rate in Canada, and in part to the highly favorable Canadian trade in snowmobiles, which enter the U.S. duty-free under the Trade Agreement. The trend towards smaller North American-type cars has also been an adverse factor.

The question is occasionally raised as to the possibility of similar agreements between the U.S. and other countries. Because circumstances are different from those that exist with Canada, new and imaginative approaches would have to be used in any such attempt.

General Motors Corp.,
General Motors Building,
Detroit, Mich., March 16, 1973.

Hon. Abraham A. Ribicoff,
U.S. Senate,
Washington, D.C.

Dear Senator Ribicoff: Thank you again for the opportunity to appear before your Subcommittee to present General Motors views on the issues which we believe to be critically important to our nation and to the peaceful and prosperous growth of a world economy.

During the course of my appearance before your Subcommittee, Senators Fannin and Hartke requested additional information for inclusion in the record of the hearings. We have written directly to each of them. We thought that you would wish to have this information also. Additionally, we wish to offer for inclusion in the record of the hearings the information supplied to Senators Fannin and Hartke.

In response to Senator Fannin's request, attached you will find a five and one-half page expansion on the information we provided on the subject of possible repeal of the foreign tax credit. We request that this information be included in our testimony, as a response to the request from Senator Fannin, following line 23 of page 164 of the official transcript of the hearings on February 27, 1973.[1]

Also attached is a schedule and supporting newspaper reports in response to a request by Senator Hartke for information on price changes in Toyota vehicles in the United States since August, 1971. We request that this information be included in the report of the hearings following line six of page 188 of the official transcript.[2]

In our review of the transcript of my February 27 appearance before your Subcommittee, two items related to the U.S.-Canadian Trade Agreement would appear to benefit from further explanation. On page 207 of the official transcript of the hearings for February 27—lines 21 through 24—you commented that the U.S. trade deficit would benefit from manufacturing Cadillacs rather than Chevrolets in Canada. On examination, it appears that such a change would not achieve the objective you envisioned.

In order to participate in the eight percent growth rate in Canadian demand for motor vehicles which was projected by the U.S. Government and to attain the economies of scale which the trade agreement makes possible, we rationalized production at our assembly facilities to obtain optimum production rates. This necessitated production of vehicles which would be most representative of consumer requirements in both countries.

Had we decided to assemble Cadillacs in Canada instead of Chevrolets, a substantially greater portion of Cadillacs would have to be produced in Canada and shipped to the U.S. to meet sales requirements here than the ratio that now prevails for Chevrolets. At the same time, more U.S.-produced Chevrolets would be shipped north to supply Canadian demand than now prevails.

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[1] See p. 164.
[2] See p. 188.

The resulting shift in production and movement of products probably would have very little effect on the current balance of trade.

The other area which should be explained is that the preliminary figures for 1972 U.S.-Canadian automotive trade surplus of "in excess of $100 million" quoted during our appearance has now been updated by the Commerce Department to reflect an unfavorable $29.2 million for 1972.

At the time we appeared before your Subcommittee on February 27, we had been advised by the Commerce Department that preliminary data showed a favorable U.S. balance of $108 million. As you may recall, we stated at that time: "Preliminary results for 1972 indicate a favorable U.S. balance in excess of $100 million." This excluded snowmobile shipments. To the best of our knowledge at that time, the statement was true. This information had been given to us February 23 by the Commerce Department, when it became publicly available information for anyone who wished to request it.

To the best of our knowledge, the recently announced $29.2 million unfavorable balance is accurate.

Once again, I want to thank you for the opportunity to appear before your Subcommittee on this most important issue and for your gracious comments regarding our efforts to be of assistance to you and the other members of the Subcommittee. If we can be of any further assistance, please do not hesitate to let us know.

Sincerely,

T. A. MURPHY.

(Whereupon, at 12:15 p.m., the hearing was recessed, to reconvene at 10 a.m., Wednesday, February 28, 1973.)

MULTINATIONAL CORPORATIONS

WEDNESDAY, FEBRUARY 28, 1973

U.S. Senate,
Subcommittee on International Trade
of the Committee on Finance,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Nelson, Fannin, and Packwood.

Also present: Senators Long, Hartke, Bennett, and Roth.

Senator Ribicoff. The committee will be in order.

Our first witness is Hon. Frederick B. Dent, Secretary of Commerce.

We welcome you, Mr. Dent. I believe this is the first time you have been before this committee.

Won't you proceed as you will and then we will have some questions.

I will have to leave at about 10:20 for about 15 minutes to introduce Mr. L. Patrick Gray to the Judiciary Committee, then I will return. Either Chairman Long or someone else will be here to chair the hearings until my return.

You may proceed, sir.

Secretary Dent. Thank you.

STATEMENT OF HON. FREDERICK B. DENT, SECRETARY OF COMMERCE, ACCOMPANIED BY LAWRENCE A. FOX, ACTING ASSISTANT SECRETARY FOR DOMESTIC AND INTERNATIONAL BUSINESS

Secretary Dent. Mr. Chairman and members of the committee:

I wish to thank you for your kind invitation and the opportunity to set forth my views on the impact and implications of the multinational corporation. I am accompanied today by Mr. Lawrence A. Fox, Acting Assistant Secretary for Domestic and International Business.

Given the many claims and counterclaims by both adherents and opponents, it is all the more important that the facts about the operations of multinational enterprise be developed in order that the public be better informed and sound policy be developed. The hearings that this committee is now conducting can therefore make a significant contribution toward the realization of these ends.

We, in the Department of Commerce, have underway a continuing project to ascertain the facts concerning the multinational corporation.

To date, we have published 3 studies plus a special statistical survey covering key operations of 298 multinational corporations in the manufacturing and petroleum industries for the period 1966–70. Further studies are underway and some of the results should become available later this year. In addition, you have the comprehensive study by the U.S. Tariff Commission, requested by the Senate Finance Committee, which appears to be a valuable contribution to the literature on the subject. While much information is presently available, we are fully aware of the limitations of the data and the need to acquire more detailed information in the future. To a certain extent therefore our conclusions are preliminary.

Today I will deal with some of the criticisms leveled against the multinational corporation and set forth some of the facts concerning their operations.

THE MULTINATIONAL CORPORATION IS UNDER INCREASING PRESSURE

It is fair to say that the multinational corporation finds itself under increasing pressure from many quarters not because of its failures but because of its successes. Since it is a dynamic force which has brought with it tremendous changes in the areas in which it has operated, it has created much attention.

It is under attack by labor unions who alleges that multinational corporations export jobs. It is under pressure in many of the less developed countries, as, for example, in Latin America, where Chile has exproporiated very substantial U.S.-owned interests. Even in developed countries with outlooks similar to our own, such as Canada and Australia, legislation has been introduced or is under consideration to scrutinize foreign investments coming into these countries to attempt to preserve a domestic flavor to the future development of their economies.

In the Common Market area, U.S. multinationals are being subjected increasingly to greater scrutiny although there are few cases thus far in which investment proposals have actually been rejected. Nevertheless, there is now a general growth of opposition to takeovers of existing firms, a reluctance to permit investments in the so-called high-technology industries and a greater interest in developing antitrust and monopoly regulations.

Finally, international organizations have shown a growing interest in multinational enterprise. Three major studies are now underway—in the Organization for Economic Cooperation and Development, the United Nations Conference on Trade and Development, and the International Labor Organization. Thus, the success of the multinational corporation and the problems it has allegedly created have thrust it into the forefront of public concern.

CRITICISMS OF THE MULTINATIONAL CORPORATION

What are the criticisms that have been leveled against the multinational corporation?

Essentially, the case against the multinational corporation, as articulated by its domestic critics, can be stated as follows:

It exports jobs and undermines U.S. living standards;

It imports goods into the United States made with low-cost labor in competition with American products produced by relatively high-cost labor;

It exports U.S. technology and undermines the U.S. competitive position abroad;

It therefore hurts the U.S. balance of payments;

It evades U.S. taxes by going abroad; and it exploits the less developed countries.

FACTS ABOUT THE MULTINATIONAL CORPORATION

Essentially, the statistics that follow have been drawn from various studies undertaken by the Department of Commerce. What the data seem to show is that, rather than harming the U.S. economy as is often alleged, the multinational corporation has brought substantial benefits both to the United States and to the countries in which it has operated. Furthermore, it should bring increasing benefits to all parties concerned in the future.

A. In the international economic sphere, multinational corporations have shown the most dynamic growth since 1950. For example, while U.S. exports in 1972 were running at about $49 billion a year, exclusive of military assistance grants, total sales by multinationals were estimated to be over $200 billion. In addition, while exports have been growing about 7½ percent a year over the past decade, the book value of investments by multinationals has been growing about 10 percent a year and it is expected that this trend is likely to continue into the future. If it does, it is plain that multinational corporations will become a more significant factor in international economic relationships than they are at present. As a result of the growth of the multinational corporation, economists now talk about the internationalization of production which many regard as one of the most important developments since the end of World War II.

It is also important to note in this connection that while the United States stands preeminent in the field of multinational enterprise it is by no means the only player. According to a study by the OECD, the United States accounts for about 60 percent of the world's foreign direct investments. and other countries, mainly west European countries, account for the remaining 40 percent.

B. The distribution of U.S. foreign investments is related to our principal foreign markets and raw material sources. U.S. foreign direct investments, which are largely investments by U.S. multinational companies. had a book value of $12 billion in 1950. By 1971, these investments had risen to a book value of $86 billion. About 30 percent of these holdings were in Canada, another 30 percent were in Europe, about 20 percent were in Latin America and the remaining 20 percent were scattered throughout the rest of the world.

If the period between 1950 and the present is compared, U.S. investments in Europe grew faster than anywhere else, that is, from 15 to 30 percent of total private direct investments. Of total private direct investments, the proportion of our investments in Canada remained about the same. The ratio of investments in Latin America dropped from 39 to 20 percent during this period. Thus, it is clear that the principal growth area in the last two decades was in Europe and, in particular, in the Common Market countries. It is interesting to note that, despite some claims to the contrary, 68 percent of U.S. direct investments are now concentrated in the developed countries, where labor costs are relatively high, and only 27 percent are in the less developed countries.

In terms of functional distribution, 41 percent of our investments have gone into manufacturing, 28 percent are in petroleum, 8 percent are in mining, and the remaining 23 percent are in trade, finance, services, banking, and miscellaneous industries.

C. Foreign investments in the United States have risen. While U.S. foreign direct investments have risen by a substantial degree, foreign capital has also come in increasing amounts to the United States. In 1950 direct investments, largely by foreign multinational companies in the United States, were only $3.4 billion. By 1971 this figure had risen to $13.7 billion. As an example, my home county in South Carolina now has 22 firms representing 7 foreign countries and an investment of $230 million providing some 2,200 jobs for American citizens.

In addition to these investments, there has been a tremendous increase in long-term portfolio investment in the United States by foreigners. This has increased from a book value of $4.6 billion in 1950 to $35.9 billion in 1971. We are likely to see a rising trend in these investments as our major trading partners continue to prosper and seek profitable outlets for their investment capital.

However, by far the largest increase in foreign holdings of U.S. assets has been in the area of liquid holdings. These have jumped from $8.6 billion in 1950 to $67.9 billion in 1971. This growth in liquid liabilities was largely due to the pileup of dollars in foreign central banks and in private hands as a result of the substantial deficits in the U.S. balance of payments over the last two decades.

In summing up the experience of the last two decades, despite the substantial costs to the United States, our net investment position—that is, the difference between our total assets which were $180 billion in 1971 and our total liabilities which were $122 billion—was equivalent to $58 billion. It should be noted, however, that this represents a decline from the peak value achieved in 1970 when our net investment position was $69 billion.

D. The claim that U.S. exports have been hurt by multinational corporations is not borne out by the facts. Department of Commerce studies in the mid-1960's of the relationship between merchandise exports from the United States and direct investments abroad by U.S. firms indicated that about 25 percent of U.S. exports are associated with the investment activities of multinational companies. A more recent study based on a special survey of 298 U.S.-based multinational companies revealed that in 1970 these companies exported commodities valued at $21 billion which was 51 percent of total U.S. merchandise exports. It is clear that exports associated with U.S. multinational companies have been a substantial proportion of total U.S. exports.

E. The claim that imports are flooding into the United States from foreign affiliates of U.S. multinationals is similarly not supported by the facts.

For example, according to the most recently available data contained in the special survey of U.S. multinational companies, gross worldwide sales by the 5,237 majority-owned foreign affiliates of the

298 U.S.-based multinationals amounted to $114.7 billion in 1970. Sales to foreigners were $107.2 billion, or 93 percent of the gross total. Thus, only 7 percent of the goods produced abroad by U.S. multinationals was imported into the United States, and was mainly to the U.S. parent.

The conclusion reached is that foreign production by the U.S. multinational companies is overwhelmingly for sale in overseas markets.

F. As regards the balance of payments, multinational corporations have contributed significantly to our net current account earnings. For example, in 1966, the 298 multinationals covered in the special survey had a trade surplus, that is, a surplus of exports over imports, of $5.3 billion; the total commodity trade balance for the United States as a whole was only $3.8 billion. In 1970, these multinationals had a trade surplus of $7.6 billion while the total U.S. trade surplus declined to $2.2 billion.

In addition, multinationals remit substantial profits to their U.S. parents and also earn large sums from licensing patents and from royalties. These earnings came to $9.5 billion in 1971, greatly exceeding the $4.8 billion of net capital outflows for direct investment. Thus, multinationals are contributing substantially to strengthening our balance-of-payments position.

G. As regards the effect on employment, multinationals have helped to maintain employment between 1966 and 1970. The special survey mentioned above has shown that, while U.S. private sector employment grew at about 1.8 percent a year, and manufacturing employment grew by 0.2 percent a year, domestic employment attributed to U.S.-based multinational corporations grew by 2.7 percent a year. Thus, the substantial growth of foreign business supported to a very important extent a higher level of employment in the United States than otherwise would have been the case.

In considering the impact of multinationals on employment, it is important to note the following additional facts which are sometimes ignored.

In many cases, U.S. import competition comes not from U.S. multinational corporations but from foreign-owned companies. This is especially true in the cases of textiles, steel and, to a certain extent, automobiles. Because multinationals account for a substantial proportion of U.S. exports, they support a large number of domestic jobs, the existence of which would be seriously impaired if impediments were placed in the path of these companies.

Where United States and third country markets are supplied by American affiliates abroad, elimination of these facilities might result not in increased U.S. output and employment but in replacement of such output by foreign competitors with no gain in U.S. employment, and a loss in repatriated earnings. Thus, by bringing in certain components from foreign affiliates for completion in the United States, a share of the domestic market may be preserved and a certain level of employment may be provided which otherwise would not be possible.

H. It is difficult at this time to assess the full balance of benefits that flow to both sides as a result of technology transfers. It is clear that the United States is the greatest exporter of technology and that the foreign affiliates of U.S.-based multinationals are the principal recipients of this technology. It is also clear that the U.S. balance-of-payments benefits substantially from receipts of fees and royalties remitted by these affiliates to their U.S. parents. These inflows amounted to $2.2 billion in 1971; receipts from nonaffiliated foreign firms were $621 million. Total receipts from affiliated and nonaffiliated firms between 1960–71 amounted to $19.8 billion. If U.S. payments to foreign firms are deducted, the United States enjoyed a net surplus over this period of $18.0 billion.

On the other hand, it is important to note that the United States is also the beneficiary of important foreign processes which we have imported and put to use. One need only mention the most prominent examples such as the invention of pencillin, magnetic tape, the jet engine, the oxygen process for producing steel and the development of certain polyethelene plastics. The most recent example is the rotary engine which is now being adapted for future use in U.S. automobiles and which may ultimately revolutionalize automobile production. All these were foreign inventions which were or are now being exploited by American companies to their own advantage and to the advantage of their many customers around the world.

Viewed in this way, technology is a two-way street and it is difficult to strike a balance between costs and benefits. However, in an age where rapid communication makes all information available in hours, where the multinational corporation is only one of many channels for diffusion of technical information, and where technology is itself a highly perishable commodity, we should approach with great caution certain proposals now being advanced in some quarters which seek to limit or requlate the transfer of technology. One can safely predict that if we were to restrict the outflow of information to otheh countries, they would probably retaliate.

I. Multinational corporations do not go abroad to avaid the payment of taxes as is often alleged. Here, too, recent studies suggest that multinationals do not invest abroad to avoid U.S. taxes. Although U.S. income tax rates are often higher than those in certain foreign countries, foreign income taxes paid by U.S. affiliates in developing countries were 53 percent of their earnings in 1966 and again in 1970. Affiliates in Canada, the EEC countries, Australia, New Zealand and South Africa paid around 40 percent of their earnings in income taxes in 1970. This is about the same as the share of earnings paid in income taxes in the United States by U.S.-based multinationals.

When economic conditions both here and abroad are favorable, the rate of return on capital earned by foreign affiliates of U.S.-based multinationals is about the same as the rate earned in the United States. Thus, the Department's special survey showed that the domestic rate of return in 1966 was 11.5 precent compared to a 10.7-percent return on their direct investments in foreign manufacturing affiliates. In 1970, because of a slowing down of the U.S. economy, the domestic rate of return dropped to 6.7 percent while the yield on their direct investments abroad rose.

J. Multinational corporations, rather than exploiting the less developed countries, have contributed to their growth. They have done so in the following ways: They have developed their natural resources; they have increased their exports and, by import substituting investments, have helped their balance of payments. Multinationals have increased employment in less developed countries and very often pay higher wages and provide better fringe benefits than indigenous firms in these countries. Multinationals have, by their investments, contributed to government revenues in less developed countries.

They have also fostered research, opened up new markets, and introduced new product lines which otherwise would have been unavailable to less developed countries. In addition, they have narrowed the technology gap through licensing arrangements, management contracts, turnkey projects, and the establishment of subsidiaries.

Finally, they have trained managers and local personnel who, in many cases, comprise the majority of the employees of foreign affiliates.

In summary, multinational corporations afford the less developed countries an excellent source of capital, managerial expertise, and technology to advance their future growth over the long term.

K. The motivations for foreign investment by multinationals are numerous. The argument often made that multinationals go abroad to take advantage of low labor costs is open to question in many cases. The above discussion has already cast doubt on this claim. For example, in a recent study undertaken for the Department of Commerce by the Conference Board of New York, which is to be published in the near future, it was revealed that out of about 10 major reasons for undertaking foreign investment, the labor/cost element ranked close to the bottom of the list for many of 76 major multinational companies covered by this study. The main reasons for undertaking foreign investment, according to this research, included the need to protect existing markets by getting behind tariff walls—for example, the EEC—to be able to service a local market more efficiently, to acquire raw materials and sources of supply, to diversify product lines, and so forth. In most of these cases, one or more of these factors tended to operate.

It should also be noted that while foreign labor may cost less, it is often less productive. Thus, there are many production lines where unit production costs are higher abroad than in the United States Even for those items for which the foreign unit production cost is lower, it often does not differ as widely as is commonly supposed.

CONCLUDING REMARKS

Before concluding, I would like to stress one further positive contribution by the multinationals. It is that they have helped to break down long-standing barriers to social mobility and progress in the countries in which they have invested. In doing so, they have improved living standards and have helped to bring a modern and progressive outlook to many tradition-bound societies.

I hope my testimony has put into perspective the significant contribution that the multinational corporation has made to our economy and the welfare of the American people. In an age of economic interdependence, this progress has served the mutual interests of the United States and of friendly nations abroad.

Thank you, Mr. Chairman.

The CHAIRMAN. Gentlemen, I would suggest that in order that every Senator have a chance to ask his questions and also that the

Secretary can get back to his job, that Senators reserve some of their questions not essential to ask at the session and ask those that they think more significant, and on the first round of interrogation we limit ourselves to 10 minutes each in interrogating the Secretary.

We are going to start at the other table, Mr. Roth.

Senator ROTH. Thank you, Mr. Chairman.

I noticed in your testimony, Mr. Secretary, that you point out that the difference between our total assets in 1971 and our total liabilities was $58 billion, a drop from $69 billion in 1970.

This reminds me a little bit of our problem with our gold deposits. There was a time a few years back when we had a pretty hefty supply of gold. I am curious if you see the same thing happening in this area?

In other words, if I understand it correctly, our policy is to encourage investment in this country, hence increase liabilities.

Do you foresee a time when this may become a problem and our net position will be reversed with the Common Market?

Secretary DENT. Encouraging——

Senator ROTH. Well, do you see the time coming when instead of having a favorable balance, if you want to call it that, in our net investment position, that it might reverse itself. You have a $11 billion drop in 1 year.

Secretary DENT. I believe that if we as a nation maintain the incentives to expand business in this country that we will not see the day where there is a deficit position.

But we must be alert to this matter of incentives and see that overseas nations do not out-compete us.

Senator ROTH. Let me ask you this question.

We had an $11 billion drop in 1970–71. What do your specialists anticipate will happen during the current year and the next several years in our net investment position?

Secretary DENT. I have no projections available, Senator. I would be glad to try to develop one for you.

Senator ROTH. I appreciate, Mr. Secretary, if you would. It would be interesting to see where we might find ourselves in a few years.

(The following document was supplied by Mr. Dent:)

THE FUTURE OF THE U.S. NET INTERNATIONAL INVESTMENT POSITION

Over the last decade (1961–70), the net international investment position of the United States improved annually, largely reflecting the surpluses on our current account. (If the current account—trade, services and unilateral transfers—is in surplus, our assets increase more than our liabilities.) However, the recorded net investment position deteriorated by $11.3 billion in 1971. Much of this decline was due to the fact that international assets acquired by U.S. private residents were substantially underreported (errors and omissions totaled about $11 billion). If the unrecorded increase in assets had been recorded, the increase in U.S. claims would have been larger and the deterioration in our net investment position would have been much less. The $2.8 billion deficit on our current account balance also contributed to the worsening of net U.S. investment position in 1971.

Although this development temporarily halted the historical annual improvement in the U.S. investment position, the total value of U.S. assets and investments abroad continued to rise and to exceed similar foreign-owned assets and investments in this country. The total value of U.S. assets and investments abroad reached $180.6 billion in 1971, compared to foreign-owned assets and investments in this country of $122.8 billion.

The composition and changes in U.S. assets abroad differ significantly from those of foreign investments and claims on the United States. Most of the rise in U.S. assets abroad is attributable to the sharp increases in U.S. direct investments. U.S. direct investments rose on the average of 10% annually between 1965 and 1971. In the latter year, direct investments rose by over $7.8 billion, pushing the cumulative total of these investments to $86 billion. By contrast, foreign direct investments in the U.S. economy rose by just over $400 million in 1971, to a cumulative total of $13.7 billion. This represents only a small proportion of $123 billion in total foreign investments and claims on the United States.

Actually, between the two major long-term investment channels, direct and portfolio, open to private foreign investors, the latter is preferred. Private foreign holdings of U.S. securities amounted to $29.9 billion at the end of 1971, up $4.3 billion above 1970.

The net international investment position is expected to show another but smaller deterioration in 1972, as there was a sharp decline in unrecorded outflows of funds from the United States only partly offset by a larger current account deficit. With an improved international monetary climate, a more realistic exchange rate structure and the expected improvement in our trade balance and thus in the current account over the next couple of years, the deterioration in our net investment position should come to an end, at least by 1974, and subsequently improve by annual amounts, perhaps of the same order of magnitude as those recorded during the previous decade.

Senator Roth. I would also like to ask you a question on your testimony where you say, "Only 7 percent of the goods produced abroad by U.S. multinationals was imported into the United States, and was mainly to be the U.S. parent." Then you make out a very persuasive case that on the whole multinational corporations have been helpful in our balance-of-payment and balance-of-trade problem.

Does that 7 percent concentrate in any type of industry? Are there any particular industries that appear, for one reason or another, to export their plants and then ship the material back?

If so, what is the reason for that?

Secretary Dent. Well, I think that offhand you can see that electronic plants in particular have gone to the Far East. They have done this to protect markets which otherwise would have been taken by foreign companies which would export to the United States, and in doing this they have protected a market position.

Perhaps as with the small calculators we will see a reversal in this trend if technological advances are maintained.

Of course, some of this also involves the automobile trade with Canada as well under the agreement that was established between the United States and Canada.

Senator Roth. Are those the only industries where this has been significant?

Secretary Dent. These are the ones that come to mind, Senator.

Senator Roth. I realize you don't have all of this information at your fingertips, but I wonder if your Department has any figures on the extent to which other industries do this.

Secretary Dent. We can identify quite readily, yes, sir.

Senator Roth. I think that might be interesting, Mr. Chairman, to have that in, and the reasons why they have found it necessary.

(Information supplied by Mr. Dent follows:)

VOLUME OF GOODS PRODUCED ABROAD BY U.S. MNC'S IMPORTED INTO THE UNITED STATES

Gross worldwide sales by the majority-owned foreign affiliates of the U.S.-based MNCs amounted to $114.7 billion in 1970, and 7% or $7.5 billion of these goods produced abroad were imported into the United States. This information was obtained in connection with a recent U.S. Department of Commerce special survey of 298 U.S. companies and their 5,237 majority-owned foreign affiliates.

A review of the origin of these U.S. imports amounting to $7.5 billion reveals that $5.7 billion or over three-quarters represented merchandise imports from affiliates abroad in the broad industry groups of petroleum, transportation equipment, mining and smelting. U.S. imports from petroleum affiliates amounted to $2.3 billion mostly originating from the developing areas of the world. Imports from mining and smelting affiliates amounted to $762 million. Around 35% of all U.S. imports from MNC affiliates from abroad represented imports of transportation equipment from Canada amounting to $2.6 billion. Most of these imports from Canada are a special case in that trade in American and Canadian automotive products is governed by the terms of the U.S.-Canada Auto Agreement.

The United States and Canada negotiated the Automotive Agreement at a time when Canada had a substantial trade and payments deficit with the United States and when the Canadians were determined to develop their own automotive industry behind a high protective tariff. In order to induce automotive companies to invest in assembly plants in Canada, the Government began negotiating selective tariff remission schemes for parts with individual companies. This situation created increasing bilateral trade tensions between the United States and Canada and made it imperative that we reach some type of agreement. The resulting Automotive Agreement freed bilateral trade in automotive products and created the basis for information of an integrated automobile market. Since the negotiation of the agreement, the United States has moved from a surplus to a deficit position in bilateral automotive trade. The deterioration in our bilateral automotive trade is due to several factors that were not foreseen at the time it was negotiated, particularly the lock of growth in the Canadian demand for automobiles and substantial import penetration of the Canadian automotive market by Japan and Germany. However, last year the U.S. net automotive balance with Canada improved by $100 million to only a $99 million deficit.

U.S. IMPORTS FROM MAJORITY-OWNED FOREIGN AFFILIATES OF U.S.-BASED MULTINATIONAL COMPANIES; 1970

				Manufacturing									
	Total	Total	Food products	Chemical and allied products	Primary and fabricated metals	Machinery	Transportation equipment	Other manufacturing	Petroleum, Total	Total	Other mining and smelting	Trade	Other
All areas, total	7,524	4,106	73	169	30	512	2,890	432	2,329	1,088	762	179	147
Developed countries	5,045	3,911	52	144	(1)	415	(1)	398	527	608	460	82	66
Canada	4,185	3,322	29	60	19	269	2,595	351	(1)	(1)	421	(1)	35
Europe, total	767	557	24	65	(1)	145	(1)	35	(1)	(1)	(1)	46	26
United Kingdom	151	134	(1)	(1)	4	41	(1)	(1)	(1)	(1)	0	(1)	(1)
EEC	480	337	(1)	30	(1)	(1)	(1)	17	(1)	(1)	0	(1)	(1)
Other Europe	136	86	(1)	(1)	(1)	(1)	1	(1)	(1)	(1)	(1)	(1)	(1)
Japan	28	6	0	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0	(1)	(1)
Australia, New Zealand, South Africa	65	26	0	(1)	0	(1)	(1)	(1)	1	39	(1)	(1)	(1)
Developing countries	2,018	196	21	25	0	97	(1)	35	1,400	422	302	(1)	(1)
Latin America and other Western Hemisphere	1,380	90	(1)	(1)	(1)	23	(1)	27	(1)	(1)	(1)	(1)	6
Other developing countries	638	105	(1)	(1)	(1)	74	(1)	7	(1)	(1)	(1)	(1)	(1)
International [2]	461	0	0	0	0	0	0	0	402	58	0	(1)	(1)

Source: Special Survey of U.S. Multinational Companies, 1970—BEA-SUP 72-03 (November 1972).

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[1] Data were suppressed in order to avoid disclosure.

[2] This classification was established to cover activities of international trading firms and other types of affiliates that operate in more than 1 area.

Senator ROTH. One further question.

Some reference was made the other day to the adjustment assistance program to help those industries that have been adversely affected by trade. I think it is generally recognized that our present efforts in this area are not looked upon very favorably either by industry or by labor.

I wonder if your Department, in making a study of this question, has come up with any suggestions as to what should be done.

Is adjustment assistance a viable means of helping those companies and employment in those industries that are hurt by trade?

Secretary DENT. Adjustment assistance is being addressed by a task force which is working on the development of the new trade legislation which the President expects to send forward in the not too distant future and the proposals for adjustment assistance and many modification thereto would be involved, and our Department is participating along with others in the development of this.

Senator ROTH. Thank you, Mr. Chairman. That is all the questions I have at the moment.

Senator NELSON. Mr. Dent, on Monday this week, the executive director of the Council on International Economic Policy, Peter Flanigan, stated, and I quote from his testimony:

> Our experience indicates that the balance of payments problems cannot be cured by reducing imjorts. Such attempts only invite retaliation against our exports, limit consumer choice and increase prices for every American.

Now, do you as a former executive in the textile industry agree that reducing imports is not the correct way to meet the balance-of-payments deficit?

In that case, a whole bunch of multinationals supported textile quota imports. I understand you supported textile quota imports. The multinationals that supported it were Burlington Mills, Dan River, J. P. Stevens, Monsanto, and du Pont.

Now, why is it sound business to have import quotas on textiles but not sound business to have import quotas on other industries?

Secretary DENT. Speaking to the textile case, as you know, the textile industry goes back to the days of the Venetians and there has been trade in this more broadly than in any other industry. It is well distributed around the world.

In the United States it involves a million employees directly in the textile industry. It is another 1,350,000 in the apparel industry, and when you involve the production of raw cotton and wool, all of those who handle these commodities, the number of people in the United States involved economically rises up somewhere in the area of 15 million.

Now, in analyzing that particular segment of international trade, there is first of all the problem of wage rates. The U.S. total hourly compensation for textile people last year was, I think, $3.52; Japan's, $1.23; and, of course, you go to a fraction of that in other countries of the Orient.

In analyzing the trade from the lesser-developed countries, as I recall the figures from memory, about 82 percent of the less-developed countries' exports were coming to the United States. about 2 percent to Japan, which has 50 percent of the population of the United States, and about 17 percent was going to the Common Market countries which have an equal population size to ours.

The reason this was occurring was simply that there were barriers both in Japan against the importation of lesser-developed countries' products and also in the European Common Market.

When we had the involvement of jobs in the U.S. economy as I have outlined, it was imprudent to let the barriers which exist elsewhere in the world force these much lower wage products into the United States.

I might point out that after the negotiation of this occurred, reports from the Orient in November were that after the first year of the man-made fiber and wool agreements that it has proved out to be satisfactory for those countries as well as here.

Senator NELSON. There is no doubt in my mind that a lot of jobs are involved. We have the shoe industry in my State and exactly the same argument is advanced in behalf of the shoe industry that is advanced in behalf of textiles.

We have electronics in my State—exactly the same argument is being advanced. Imports have wiped out a major portion of the radio, the TV business in this country and in my State.

Exactly the same argument that you just made can be made in behalf of these.

Next week, we will hear from Mr. Meany representing AFL–CIO testifying—I believe from public statements he had made in the past—in support of the Burke-Hartke bill.

As you name each one of these products there, they are going to make same argument, and what I am trying to determine is what distinguishes the textile industry from a host of other industries who have the same problems as to imports from low wage level countries.

How do you distinguish?

If this administration thought it was sound to do this for textiles, why is the administration opposing it for shoes and electronics and others?

Secretary DENT. Traditionally, textiles have been treated separately in international trade.

Back in 1934, when President Roosevelt's trade policy was established, Secretary Hull at that time said that the textile problem had to be resolved with some sort of restraint.

I would like to point out that the voluntary arrangement which has existed since early 1961 was negotiated under the GATT and is a legitimate development of international trade. It was not unilateral action which would result in retaliation, if uniliateral action was taken by an individual nation.

Senator NELSON. Well, I don't think anybody in this country or any politician is naive enough to know that it wasn't unilateral in the sense that we said: You do it or we are going to do it and we negotiated agreement with them under heavy pressure.

We all know that. Political commitments were made in the campaign, to defend the textile industry.

That might be sound. I am not saying that it is not. All I am saying is, I don't see the soundness of it as to textiles but not as to other industries that are getting wiped out. Factories are being closed; they just closed one for all practical purposes in Illinois. It employed several hundred people from my State. They are all out of a job. They come to me and say they moved the plant down to Mexico and they are going to ship it all up here.

That job is just as important to them as the textile jobs are to the textile workers.

How do you answer those workers when they come to me and I say, Yes, I give them your answer on textiles, they say, Well, how do you distinguish that from our shoes, our electronics?

What would you tell them?

Secretary DENT. Well, the administration, as has been noted in the press, is interested in developing, and proposes to bring forward a safeguard system which will look out for the interests of those who are being affected by the effects of international trade so that this is one thing which I hope we can look forward to.

The history of these arrangements in textiles goes back to a voluntary restraint on the part of Japan, as I recall, in 1958, for cotton.

The short term started in 1961. The long term came in 1962 right after that.

So this has been a long-term relationship that has existed in a specially unique area where there is production in an industry on a worldwide basis. The purpose of these arrangements under the GATT is to increase trade opportunities for the lesser-developed countries but on an orderly basis. Each year there is a meeting of the countries which are signatories, involving now 30, at which time they discuss the problems both on the importers' side as well as the exporters' side.

Senator NELSON. Mr. Dent, you keep referring to it as "old agreements," and it's an old industry.

It's true the textile industry is probably the oldest industry in the world, and the electronic industry is one of the newest, and there was no problem until recently.

When problems arose in textiles we started to worry about imports. Finally, this country put enough pressure on Japan to make her agree to a quota but it doesn't solve the problems of employees to say, Well, unfortunately, we didn't discover electronics early enough and you fellows are going to have to do without your job.

Secretary DENT. You mention certain multinationals in the textile industry and it is true that a number of those do have operations offshore, but it is likewise true that these are to service a local market and not for re-export to the United States.

Those installations are largely in Europe or places of that sort. They have not moved to the Orient for export to this country. They have elected to try to defend American jobs and present the case to the American people and it has resulted in these agreements which have given continuing access to this market.

In 1956, I think we took in 600 million square yards of textiles. In 1972 it was up to 6 billion square yards, and the trade deficit there was about $2¼ billion.

Senator NELSON. I know it's been dramatic, and I don't have with me the electronics and shoe imports figures which are just about as dramatic. But my perception isn't sufficiently refined so that I can perceive the difference in merits of the two cases.

All I am saying, I think electronics and shoes are probably as meritorious along with others as textiles.

Thank you.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Mr. Secretary, I must confess I have the same difficulty Senator Nelson has in following the logic of your argument.

Let us take automobiles in particular to draw an analogy to textiles.

You indicated in the case of textiles, Japan was letting relatively few other countries bring textiles into Japan.

In Europe, the Common Market has not quite the restrictive tariff as Japan.

In automobiles, while they are not as widely manufactured, you have the same situation. Japan wouldn't let European or American cars in significant amounts into their market.

Europe is very discriminatory against Japanese cars and yet the American market is easily penetrated by manufacturers in both countries.

Would you suggest the same policy for the United States if in the next 3 to 5 years imports begin to substantially impinge upon employment in the domestic automobile industry, should we go to a quota or other nontariff barrier?

Secretary DENT. I think it would be more important to get the proposed trade negotiations behind us, and see.

The purpose of these is to reduce the barriers and see if there may not be a freeing up of these restrictions. That is the goal that is to be undertaken.

Senator PACKWOOD. Would you be satisfied then with the same approach to textiles. If we can break down the barriers in Japan and Europe so that textiles created in Hong Kong and America enter those markets, we in turn would let down the barriers here?

Secretary DENT. I think it would be well to see what conditions exist after this has been negotiated and not to try to predict things on a circumstantial basis.

Senator PACKWOOD. That is no answer at all.

At best, it is an evasive answer.

The CHAIRMAN. If I might suggest, I believe maybe we fellows sitting on this side of the table should not tell a fellow he evaded the question.

Ask another question a little more pointed. [Laughter.]

Secretary DENT. Mr. Chairman, I would like to also point out that I was testifying on multinationals and not as a representative of the textile industry with which I am no longer affiliated.

Senator PACKWOOD. Let me ask you a more pointed question unrelated to textiles. On page 5 of your statement I don't understand the point of your statement:

> For example, while U.S. exports in 1972 were running at about $49 billion a year, exclusive of military assistance grants, total sales by multinationals were estimated to be over $200 billion * * *.

I'm not sure I understand the statement to begin with.

If I do understand it, I am not quite sure what it proves.

Secretary DENT. Well, it just shows the growth of multinational corporations and the fact that their opportunity overseas have been so great through the growth that they have been able to develop with plants offshore and this is business that would not have been enjoyed by, at least the majority of it would not have been enjoyed by the U.S. companies had they not taken the initiative to get in behind the barriers and be able to service those markets.

Senator PACKWOOD. I have no more questions, Mr. Chairman.

The CHAIRMAN. Senator Fannin.

Senator FANNIN. Thank you, Mr. Chairman and Mr. Secretary. I am very sorry I haven't been here through all of the hearings to hear your testimony and I don't want to be repetitive, but I have had the opportunity to review your statement and I am very impressed with what you have had to say.

It is excellent coverage of the position of the multinational corporations in world trade and their benefits to our country in worldwide development. You have rendered an excellent service to us in that regard.

I am concerned, Mr. Secretary, with reports of the tax treatment accorded our corporations, especially the multinationals. Would you have information on how the major trading nations tax their corporations and foreign subsidiaries?

I think we should have a comparison.

Secretary DENT. Sir, the United States is the only country which taxes any of its taxpayers' foreign nonmanufacturing income before repatriation.

In 1961, the United States enacted legislation seeking to tax U.S. controlled foreign sales companies currently on their income. No developed country has adopted comparable taxing provisions.

Countries which grant tax deferral to income earned outside their borders by subsidiaries owned by their nationals include Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, and the United Kingdom.

Some countries do not tax foreign income even when remitted or tax such income at considerably reduced rates.

Examples are: Belgium, Denmark, France, Italy, the Netherlands, South Africa, and Switzerland.

As you know, the Burke-Hartke proposal to tax U.S. firms currently on all earnings, manufacturing, as well as nonmanufacturing, of their foreign subsidiaries would further increase the disparity between the relative tax treatment received by U.S.-based multinationals and those based in other countries, since no other country follows this course.

Senator FANNIN. Well, thank you very much, Mr. Secretary. We hear about France and some of the countries you have mentioned, with their value-added tax that they use to act as a barrier to imports and as subsidization of exports.

I understand that that is brought about under GATT, under the General Agreement of Tariffs and Trade because of our country's not objecting perhaps during a time when we did not have a trade problem and we were trying to help build those other countries, and now I understand this has become quite a barrier.

Would you want to comment on that?

Secretary DENT. Well, it certainly has.

The remission of value-added tax to export—permits a company overseas to send out a product with a great deal less cost than an American company which exports one carrying the burden of taxes, and in addition, when this hits the foreign shore, why, it has a tax added to it.

So there is no question that the value-added tax system remission is working to the disadvantage of American companies.

Senator FANNIN. Some of the problems we have I am sure you have mentioned. If I am just being repetitive, you will so inform me. The distinguished Senator from Oregon was asking about the automotive industry with the tariff now only 3 percent on the cars coming into this country.

Do you feel that under the negotiations in September that we will have an opportunity to do something about not only the differential in the tariffs but in the nontariff barriers which even exceed in many of the countries many times over the tariff barriers?

Secretary DENT. This is very definitely the President's intention to attack both the tariff barriers as well as the nontariff barriers which are preventing American exports getting into so many foreign countries today.

Senator FANNIN. As I understand it, we are looking forward to a quid pro quo more so than just a traff barrier for the imports.

Joseph Wright, chairman on the board of Zenith Corp. stated if they could have entry into the Japanese market, with, say, colored TV or the TV generally, that they could compete.

Now, would that necessarily be true of Japan in the automotive industry.

Secretary DENT. About exporting—do you feel that Japan with their manufacturing now into the millions of cars, that we would have any advantage over them as far as the purchasing power, as far as the cutbacks that could be made, administrative costs and all; would that be very effective as far as Japan is concerned?

Secretary DENT. It seems to me that the greatest opportunity in Japan is going to be to participate in the production there through equity holdings. They have a different style of automobile than we do, a small compact rather than the larger vehicles.

Undoubtedly, a reduction of import barriers and lowering of duties there would provide an expansion for American exports but I would hesitate to believe that it would be a tremendous expansion because of the costs, the style, and these other factors involved.

Senator FANNIN. I understand fuel costs and many other barriers that they have in Japan, the roads and crowded conditions and all that, a small car is very popular.

One matter that I think is important to us when we consider cutting back on the size of the car is the number of jobs that would be eliminated. If the American public wants a larger car and are willing to pay for a larger car, it is to the advantage of the American economy that they be permitted to do so.

But don't you feel that if we had gone to a smaller car the way many advocated, that we would have eliminated perhaps hundreds of thousands of jobs over the period of years in which we have been competing with the small car, Mr. Dent?

Secretary DENT. If we had phased it out completely, the larger automobiles completely, it would have reduced the number of jobs; yes.

Senator FANNIN. And if we phase it out now, as some advocates, wouldn't that be true?

Secretary DENT. Yes, sir; I think aside from jobs we have got to always consider the market demand. We need to serve whatever the public wants; that is the genius of our American system, to be market-oriented, and I think that that should be the key to the direction in which we move.

Senator FANNIN. Well, I agree wholeheartedly, and I just hope that many people that are making these demands realize the consequences that will come about.

Thank you, Mr. Chairman.

Senator RIBICOFF (presiding). Senator Long.

The CHAIRMAN. Mr. Secretary, some of my warmer experiences on the Bill have been in doing business with former President Lyndon B. Johnson, starting back in the days when we came to Senate together.

I came at the same time he came, about 3 days ahead of him. He was a great leader up here, as you know, for many years, and I thought sometimes I should reduce to writing some of the many anecdotes and stories he told me.

One story he used to love to tell was about the Congressman who went down to the White House and talked to the President. The man came back and reported to Sam Rayburn, the Speaker of the House, about his conversation with the President.

And he said, "I told the President this and I told the President that, and here is what I said to the President."

And after a while, Sam Rayburn said. "I don't give a damn what you told the President; what I want to know is what did the President say?"

When L. B. J. became President, he was the first to caution me, "You shouldn't quote what the President said. The President doesn't object to you going around telling what you said, he does object to you telling what he said."

I suppose not being able to report for him, I think you are about as aware of his views as I am.

My thought about this matter is that when we let a country like Japan build up what is right now about a $5 billion trade surplus with us and plan to build up about a $7 or $8 billion surplus with us, and can better report on that than I can. That is what they have in mind and you know it as well as I do, and so does your predecessor. They plan to take that money and go around the world and buy up oil wells and iron ore deposits and raw materials.

And maybe that is a good thing. But when we find ourselves going broke over a period of time, our money is not going to be worth a tinker's damn if we try to keep this up. We are going to have to find some way to reach a balance trading with Japan. That is about where half of our trade deficit is. We have all sorts of commodities that could penetrate their market if they wanted to import them but they are not going to do that until they see that we mean business and that we are not going to just let them get rich by bankrupting us.

It seems to me we are going to have to say, "Now, here, if you want to sell $9 billion worth of Japanese commodities in this market, you are going to have to take $9 billion worth of our stuff home with you or do business around the corner with a third party country so you achieve the same result on a multinational basis.

Why don't we, one of these days, begin to look after our own interests?

As it stands right now, the best I can make of it, all these good news announcements that we had a rosy "surplus" on trade before you finally reported that we actually had trade deficits have not served any useful purpose. We had been receiving this monthly good news announcement indicating a trade surplus for the United States when we actually were running deficits. By now the situation is so bad even your distorted trade figures show a large deficit of nearly $7 billion.

We give $1 billion worth of wheat to India; we put that down as though we made $1 billion in our trade with India.

We didn't make a penny on these soft currencies sales, and foreign aid giveaways which are running about $2½ to $3 billion.

So you would heavy up your exports side by about $3 billion and then on the other side you would lighten up your deficit by taking off the freight and insurance and give us something that looked about $5 billion better than it actually was. So over a 5-year period of time, you were reporting that you had a accumulative $14 billion trade surplus when in fact you had a $12 billion deficit. You didn't make $14 billion; you lost $12 billion.

And now, when you were with the textile industry you were well aware of that and we are raising the devil about that fraudulent figure. Look, we in Louisiana weren't in the textile business, not manufacturing a shirttail full, you might say, but we saw what it was doing to you people in the Carolinas and we didn't think that was fair.

And now, when are we ever going to get around to doing business with these people on the basis this thing has to have balance with it?

If you insist on a balance you could use the leverage of our market. For example, in trading with Japan, there is not a thing that they are producing over there that we can't manufacture here. Most of what they are importing into Japan is not to their advantage to produce over there; either they can't make it or it's not to their advantage.

But there is not much they are manufacturing that we have to buy. We could tell them, "Look, you are going to have to make your plans and work this thing out that you buy as much from us as we buy from you."

One simple way to do it, is to give them a ticket every time they buy something from us. They buy $1,000 worth, we will give them $1,000 that is going to buy $1,000 in here.

That or any other simple basis. Just anything that achieves that result of bringing about a balance.

If we traded that way we could have 1 million good jobs at an average of $10,000 a job. That is what a $10 billion deficit means.

As it stands right now, we are making somebody rich, including these multinational corporations. They are benefiting from the fallout of a very unwise policy, as I see it.

Why don't we start doing business on a basis that we will have to achieve a balance? Why do we insist on bankrupting this country internationally, moving from the richest country on earth to international bankruptcy by letting people make a profit we can't afford to let them make on us.

If we continue to do business. I am going to tell you the same thing I have told our Japanese friends: The time will come when this will come to an end, our money won't be any good. Why don't we change those policies and insist on reaching a balance with these people before we are doing it as a bankrupt saying: "We can't do business any more while we still have options in trading.

Secretary Dent. I think you are absolutely right that the balance has got to be corrected.

The President took the initiative, starting with the monetary revision statement—announced that the trade bill would be coming forward and that he is looking forward to accomplishment of trade negotiations designed to achieve the purpose of reciprocity which you outlined; the only bit of encouragement I can give you this morning, having checked recently, is that compared with the relative level between the yen and the dollar in August of 1971, before the freeze came in, there is a difference of 38 percent today.

So that this is going to work to the advantage of American exporters and the disadvantage of importers.

The Chairman. Let me show you something that happened in Louisiana, while I was trying to get a few jobs for people of my State.

We have got a lot of good hard-working people down there out of work. We have got some fine old north Louisiana rednecks and some good south Louisiana Frenchmen, and some very fine industrious blacks in our State out looking for a job. They want to work. They will give you a good day's work for a good day's pay.

Here I was trying to get the automobile companies to put something down our way. You look down there and see Baton Rouge. Look out the window and see those barges coming down loaded with automobiles to sell us and what are they taking North?

They go back North empty. I was suggesting why can't we prevail upon you people not to treat us as a captive market but to put some of the business down this way.

And you go to explore to find out why can't you put some plant down here, they said that they would lose money or wouldn't make as much as they would somewhere else.

So I start asking what is the problem. For one thing, the transportation expense is more. Why can't you just load it on those barges that are going back up to your plant empty and take the parts back that way?

Transportation expense is practically zero. The answer is apparently we have a long-term arrangement with the railroads where for more reliability, and one thing and another, and keep them in business.

They don't say it but they might have interlocking directorships and goodness knows, what else. It can only move by rail. Forget about water transportation. The barges must go back empty.

Then let us dispense with that. How about these wage rates. You are paying people $7 an hour to do work that our people would be tickled pink to have for $3. Why can't you take that into account?

But we have got a contract with the United Automobile Workers that says where we put the plant in the United States you have to pay the same wage rate that you pay in Detroit. So here our workers are ready to give better productivity. You wouldn't hear any complaints from our Frenchmen and rednecks in north Louisiana about the fact it was boring working on the assembly line for $7 an hour or $5, $3, or $2 and a half. No, they would be tickled pink to have a job at all. Be better off than what they are doing right now.

So if they come down there they have to pay them $7. That providing is not in the United Automobile Workers contract to put a plant in Louisiana, or to see that the Louisiana worker gets good wages, that is there to see that he doesn't get a job at all in the automobile industry.

They can go to Japan, they can go to West Germany, they can go to France, to Italy, they can go practically anywhere. Everybody is willing to work with the same kind of productivity for a lot less than they can get them here.

Doesn't that amount to unfair discrimination against Louisiana where these corporations, General Motors being here yesterday, can go to Italy, France, Germany, Mexico, Argentina—you name it—Taiwan—just any place, and they can have the benefit of the productivity of labor at the going price but they can't do it if they want to come to Louisiana.

Secretary DENT. Senator, first of all, I would like to observe that I once sat, before assuming government office, on the board of directors of a multinational corporation and I have never been gladder than right now that I voted for capital appropriations to build a plant in Louisiana.

The CHAIRMAN. I want to congratulate you on your good judgment.

Secretary DENT. But apropos of the automobile situation, I would merely like to state this: In the United States we now have all the automobile production available for the market and the plants that have gone overseas are generally to serve markets overseas and not to be brought back to Louisiana and other areas.

Most of our automobile imports, the three major automobiles coming into this country, are owned by one German firm and two Japanese firms. Consequently, the movement offshore is to serve markets in those local areas and not for reentry into this country.

The CHAIRMAN. Well, Mr. Secretary, I am still looking at this $10 billion deficit and to me that means that we are buying $10 billion at a minimum.

What is the adjusted figure on our trade deficit—14.5 would be a more accurate figure. Looking at a $14.5 billion deficit, which means in simple terms to me that we are going in debt 14 and a half billion dollars a year and in the process of that we are denying American people the opportunity to produce $14½ billion worth of goods generally, goods and services, if you want to be more sophisticated with that.

Now, to me, when I try to explain all of these things to my father-in-law, who was a North Carolina banker until he retired, in a small town, the easiest way I can explain it is to talk about two farmers who have a big plantation, one on each side of the road. Each of them has a general store. One of them says: I will trade in your store on condition that you will buy something in my store, but I won't just do any business with you if you won't trade with me.

Why don't we do business that way with these people to put our people to work rather—frankly, we could find enough jobs here to virtually wipe out that welfare burden for all of these families if we would put these people to work rather than put them on welfare.

Why can't we insist on a balance in that trade account?

Secretary DENT. Senator, I think that the administration is committed to rectifying this in the negotiations and monetary changes and negotiations that are going on and we can look forward to it.

I would like to introduce a subject though as a former businessman that I think we should all consider. The genius of our economy and our market is incentives and we need to be sure that the incentives for investment in this country are comparable to what they are overseas. I have some figures here which indicate the rate of capital recovery.

For instance in the United Kingdom, if you invest $10 billion, by the end of the fifth year, you will have recovered $9.9 million of this.

In the United States you would have recovered $5.7 million.

I have other figures——

The CHAIRMAN. Now, Mr. Secretary, that is all fine and I know it is great, but as a practical matter the Japanese are denying their public the benefit of goods and services at the consumer level that they could be making available over there in order to run up these big surpluses to go and invest that money abroad.

What else can they be doing with all of that money? Can you explain that to me?

Secretary DENT. Well, one thing in Japan, they have a much higher rate of investment in plant and equipment than we do in this country. I think their reinvestment rate is 22 percent and ours is 12 percent. This is giving them a new, modern, much more highly competitive plant and equipment than we have.

We have absolutely got to be aware of investment incentives in this country or we are going to have antiquated plant, and irrespective of trade barriers we will be unable to compete.

The CHAIRMAN. Mr. Secretary, the way we are doing business right now, the Japanese and the West Germans can pick out our most sophisticated industries with our highest wage rates and have them all because they are at a much higher wage rate and the productivity alone, the productivity per dollar that they will get in those plants where the people are accustomed to much lower wage rates is enough to sustain them in these businesses on a completely free trade basis, according to international economics the best I can make it.

Free flow of capital such as multinational corporations would advocate all of the freedom to do business across boundaries without any restraint at all. What can that mean to our working people except they have to give more productivity for less wages. What else could it mean?

Secretary DENT. Well, it means, as I say, that we, as a nation, have to see that we keep the incentive for growth and modernity competitive with those around the world while at the same time negotiating from a position of strength to see that we achieve equity in the international monetary and trade fields.

The CHAIRMAN. Let me read your own language to you on a previous occasion. This is something that these are suggested, I am not sure you made this, but it obviously had to be suggested by someone in whom you had complete confidence when you were President of the American Textile Manufacturers Association. You said not long ago:

> I heard about a young man fresh out of medical school who was treating his first patient. The patient described all of his symptoms. The young doctor tried to diagnose what was wrong, but he failed. His knowledge was too limited.
>
> He even went to the big city medical library and studied all of the books and still couldn't figure it and finally went back to the patient and asked, "Sir, have you ever had this problem before?"
>
> The patient replied, "Why, yes."
>
> "Well," said the doctor, "you have got it again."

Now, there are your words:

> Of course, we haven't got the import problem again; we have had it all along. Its cause has been a foreign trade policy which has allowed foreign made textile products to take more than 10 percent of our cotton textile market and 5 percent of our man-made fiber market and nearly 25 percent of our wool market.

Now, that was the problem as you addressed yourself to it at that time, and you made one reference here that particularly appealed to me because it had something in common with the speech I made one time, and you said, "As the duly elected chief spokesman for this industry, I have received since last October, many calls and letters from textiles manufacturers expressing a great deal of interest on the state of the industry."

One such letter reached my desk some weeks ago and here it is, the letter:

"Dear Mr. Dent," it began, "the directors of my company are extremely pleased with the way in which the industry has performed since you took office as president of the American Textile Manufacturers Industry last October."

Now. I thought that was nice. But there is more.

The letter goes on to say, "We know from recent economic reports that textile industry profits have dropped 2.6 percent on each dollar of sales in 1967 compared to 3.6 in 1966, and the total sales fell by half a billion dollars."

"We also see that the textile production index"—this is quoting the letter—"went down 2 points. Employment dropped from 961,000 to 948,000 and the wholesale textile price index went down from 98.5 to 96.4, and the textile trade deficit is one-fourth of the entire balance-of-payments gap. Keep up the good work."

"Sincerely"—whatever this fellow's name—

"Chairman of the board, Mitsubishi Textile Industry, in Osaka, Japan.

"As a token of our appreciation, I am enclosing an American flag like the ones we are making and selling in your country in great quantities."

Now, parenthesis here, which says, "Pull out flag over inside coat pocket and give it a twirl."

I must say that that probably got a pretty good reaction. I had the same type thing 6 months before that, before the Gridiron Club here in Washington, and it got a hell of a response.

So it would seem to me that the problem we have here is parallel to the problem we have elsewhere. Those people are not going to buy our commodities and take them home with them unless we do business on a hardheaded basis like that farmer across the road from the other farmer who says, "I will trade in your store if you trade in mine."

How else are we going to do this?

Senator DENT. By building incentives into this economy of ours. It's incentives that have motivated this country to move ahead and when we become uncompetitive with foreign countries, as far as investment is concerned, there is a dark cloud hanging over the horizon.

Our depreciation rates on buildings today are 45 years. In Great Britain it is 20 years, Germany, 27 years.

No, sir, it's the incentives.

The CHAIRMAN. I know about the tax part of it. I have been sitting here voting to give you fellows depreciation allowances and investment tax credits. I know about that and I have probably done more to try to correct it than you, even though you are going to do the best you can about it. I have been sitting here trying to make your people competitive and hearing those arguments.

But don't you know that this problem is going to require more than that. How about the problem of labor? Implicit in what you are talking about is that on a dollar-for-dollar basis you are going to need to get productivity out of organized labor, in this country, competitive with the labor fo Japan, West Germany, and the other countries that go into the same activities that they are manufacturing their commodities in.

Isn't that implicit in free international world trade and the free movement of capital?

Secretary DENT. Well, of course, you say organized labor in this country.

The CHAIRMAN. I mean labor period, just organized, whether it's organized or not organized.

Secretary DENT. We are going to have to get productivity, that is absolutely correct.

The CHAIRMAN. And we are talking about productivity. If you are going to be competitive you are going to have to be productive on a dollar basis, not just productive in terms of getting out there and working as hard as the other guy. You have to do as much work for the dollar as the other guy provides the market is equidistant between you and him. Isn't that fair to suggest?

Secretary DENT. Yes, sir.

The CHAIRMAN. I have trespassed on my time but I think you are a far more forthright witness than most administration witnesses I have examined on this issue.

Thank you very much.

Senator RIBICOFF. Senator Hansen.

Senator HANSEN. Mr. Chairman, I am certain any observations of mine would be very anticlimactic after the questions from the distinguished chairman of the full committee.

I must say I regret not having been here for your statement, Mr. Secretary. I certainly will read it.

I do have two questions. Perhaps you may already have responded to them. They deal with some concerns of mine and since they are rather basic, if they have been gone into I hope someone will be good enough to stop me.

First, is it your belief that with the ready exportability of technology around the world, in part by multinational corporations, and in large measure by our openness of operations in our country whereby any person from Japan or Taiwan or Germany or anywhere can come in and see how we do things, how we organize industry, that under such a system we can continue to pay wages in this country substantially higher than are paid in any other country around the world and remain competitive?

Secretary DENT. I don't like to be repetitive, but we get back to this whole matter on technology. It would be very difficult to restrain this country. There is so much communication between nations that it is difficult to hide it, either here or elsewhere.

Technology is a two-way street. It seems to me that one thing perhaps we should do is to take a look at our incentives for research and development in this country and be sure that we get such a superabundance of developments that we can afford this kind of interplay.

I came from an industry recently where a Czechoslovakian development later adopted in Europe and Japan is going to have to move into this country. It is the reverse of what you are saying.

Senator HANSEN. Double knit?

Secretary DENT. No, this happens to be an open-end, spinning-type new way of producing yarn.

The double knit is a thing——

Senator HANSEN. It shows how old-fashioned I am.

Secretary DENT (continuing). That is pretty modern. This other is just over the horizon and looking at that I think it is going to be essential that it be expanded in this country and unfortunately as yet there is no domestic procedure.

So that technology is a very difficult thing to restrain.

Senator HANSEN. Well, now, what you are saying, if I understand you, is that you do believe we can remain competitive, and perhaps you didn't say this, I may be putting words in your mouth, but we might become even more competitive than we presently are despite the differences in wages or salaries that are earned in America as compared with any other country in the world, provided American industry and American workingmen have some incentives.

Is this what you are saying?

Secretary DENT. What I am saying is that we need the incentives to apply to research and development, to develop new technology, to increase productivity in this country. Then we need the incentives to see that the investments occur in this country in the form of new plants, new machinery, to help our people outcompete the offshore.

If we merely remain stagnant in this country and technology goes out, I agree with you, that there is no way to compete.

But the genius of America is the positive and the positive is to build the incentives to make our people in this country deliver what is necessary, and this rather than negative trying to bottle up a stream of technology which really would be difficult to restrain.

You will recall back in the middle 1700's the British had a monopoly on textile technology and there was a fellow by the name of Samuel Slater, who stored the technology in his head and came over to Rhode Island and brought this technology here, and out of it has been the growth. At one point in Great Britain, they were up to 62 million spindles. Today they are under 6 million. And because of the transfer of technology over here we have around 20. So these are the kinds of restrictions that are very difficult to apply but if we can, on the other hand, take the positive and apply the incentives that have really moved us out to where we are today, then I think there is hope that we can move out.

Senator HANSEN. Well, I would like to take encouragement from what you say.

I must say as a pragmatist that I find little reason for encouragement on our recent track record. I have looked at the charts to which the chairman has referred and, as I see plunging lines indicating our export of manufactured products, and sharply ascending lines indicating the export ability of manufactured products from Japan and Germany, I find little reason for encouragement.

Perhaps you have in mind some incentives that haven't been widely publicized that you think can be brought into the mix. But unless you have something different than what we have seen, is there real reason to believe that trends can be sharply reversed indeed, as I think they must be if we are going to be able to compete and survive in this country?

Secretary DENT. I may have mentioned it before you arrived, but I think that these capital-recovery schedules in this country are not competitive with our offshore competitors; as long as you can invest and recover capital more rapidly elsewhere, then it's going to be difficult to maintain the modernity of our plant and equipment in this country and this is the type of thing that we need to do, to turn America around and make it competitive, if not outcompetitive, in these respects.

Senator HANSEN. Well, there have been a number of people who are concerned, I am certain you are, with the energy picture in America. Different people have speculated as to what the extent or the measurable amount of the shortfall is in order to keep us at a reasonable level of domestic productivity in terms of our total energy consumption in this country, and I find no one who takes much comfort in what has been happening in the petroleum industry. I think it is important to note that 76 percent of all of our energy in America today comes from oil and gas, and despite the fact that there really isn't any overall shortage of energy in America, because of a number of factors, our concern about the environment, our desire to make the air cleaner and more nearly pure, our equal concern to clean up America's waters, has resulted in the passage of a number of pieces of legislation which people, fairminded people, would have to admit have at least exacerbated the energy shortage.

So while the shortfall in terms of overall energy potential in this country might be expressed by three or four decimal points percentagewise in our total energy capability, we still have experienced some very dramatic illustrations of what happens when there isn't enough natural gas to go around—and you have to shut down schools and close factories, and stop the movement on inland waterways and are unable to switch trains in rail yards because there isn't any diesel fuel to power the switch engines—and when, indeed, the Government has to take bonded fuel and make it available to a domestic airline to keep the airplanes running in this country, I think we would have to agree that something is wrong. Yet all I can see that we have been doing in the last several years, instead of encouraging the kind of development of which you speak here in this country, we have been doing just the reverse.

There hasn't been a new refinery built in America. Everyone says we don't want any, they pollute the air.

The east coast goes even further; it says not only do we not want any more refineries, we don't want any offshore drilling, not deepwater ports either, and they say, at least some say it, despite the fact that there is 20 times as much pollution of the water resulting from tanker accidents as has occurred from offshore drilling. Now, we see almost uniform movement of refining capacity from America or, let me state it differently—we see the investment in new refineries being made not in America, but around the world, and I am inclined to think that the present trend is exactly the reverse of that of which you speak.

Would you comment on that observation?

Secretary DENT. You are absolutely right on the matter of refineries. This is a matter that the American public is going to have to face up to. whether they want the refineries here or whether we want the clean land and no lights and no automobiles to move around.

I do think it is fortunate that capital has moved off and has established refineries to service the country so that we get the gasoline, but this is definitely a problem that we as a nation need to confront.

Today there are any number of proposed utility plants tied up in the courts on siting problems. and one of these days we will have a brownout and everybody will complain but the reason is that, as I understand, the siting used to take about 6 years to get a new nuclear plant on stream for a utility and today it is up to 13 years, and still moving.

As you know. the energy problem will be addressed shortly by a special Presidential message on this and hopefully it is going to be a very constructive one.

Senator HANSEN. Thank you.

Senator RIBICOFF. With the importation of fuel and gas mounting, it is estimated that in the next 5 years there will be added about $15 billion to our adverse trade balance. Where are we going to earn the money to pay for that $15 billion worth of imported fuel?

Secretary DENT. We are going to have to increase exports across the board, both agricultural and manufactured.

Senator RIBICOFF. Do you think with the present state of international trade that this is going to be achieved?

Secretary DENT. Not under the present state.

Senator RIBICOFF. In other words——

Secretary DENT. But it is proposed that the present state will be renegotiated.

Senator RIBICOFF. So this is a very big job and we are vitally concerned about being able to turn this unfavorable trade balance around?

Secretary DENT. There is a big job, yes, sir.

Senator RIBICOFF. At the present time there is a big conference going on in Washington attended by some 800 American businessmen on United States-Soviet trade. Are you participating in that conference?

Secretary DENT. I went by to greet them yesterday morning, before coming up on the Hill, for about 10 minutes.

Senator RIBICOFF. Now, looking at this morning's Post, there is a headline, "Administration Pushes Soviet Trading Break."

I am reading from this article in the Washington Post:

> A leading Soviet official meanwhile warned that denial of most-favored-nation treatment would create a major obstacle to detente which would in turn stir up anti-Semitic feelings in the United States. The Jews, warned G. A. Arbatov, head of the Soviet Institute for U.S. Studies, would be blamed for standing in the way of normalized relations between the two countries.

I would like your comment on Mr. Arbatov's statement.

Secretary DENT. I would like to look at it a little more carefully.

This is more in the area of the State Department, Senator.

Senator RIBICOFF. No, this isn't. You are Secretary of Commerce. You are going to have to have much to do with American-Soviet trade relations, and with the granting of the most-favored-nation treatment. Trade with the Soviet Union definitely falls under your duties as Secretary of Commerce.

You are going to have to come before this committee on the issue of MFN for the Soviet Union. I know it is being considered. I am concerned with knowing your reaction to Mr. Arbatov's arrogantly coming to the United States, and trying to blackmail the Congress of the United States and the American Jewish community and tell them how to behave on a great moral issue.

Last year 76 U.S. Senators cosponsored the Jackson amendment. These 76 Senators are Republicans and Democrats, conservatives, liberals, and middle-of-the-roaders representing all regions of this Nation.

We have a fundamental moral issue involved here and the people of the United States have never ducked moral issues.

Now, I am curious about the reactions of the Secretary of Commerce——

Secretary DENT. It is no reaction. I merely asked if you would repeat his statement.

I didn't see that in the paper this morning.

Senator RIBICOFF. This is from the Washington Post of this morning: "A leading Soviet official meanwhile warned that a denial of most-favored-nation treatment would create a major obstacle to détente, which would in turn stir up anti-Semitic feelings in the United States. The Jews, warned G. A. Arbatov, head of the Soviet Institute for U.S. Studies, would be blamed for standing in the way of normalized relations between the two countries."

In other words, Mr. Arbatov is trying to blackmail the Congress of the United States in taking a legislative action, and American Jews in supporting it.

Do you think it appropriate for Mr. Arbatov to be coming to the United States and telling the Congress of the United States how to act on a legislative matter?

Secretary DENT. Certainly not. The Congress of the United States should be free to take action that it sees fit in this or any other instance, and I would assure you that this matter has been called to the attention of his Government. A solution of that is essential to the overall progress of the relationship that he is proposing.

Senator HANSEN. Would you yield for a moment?

Senator RIBICOFF. Certainly.

Senator HANSEN. As one of the 76 co-sponsors of that Senate amendment and a member of the other party from that of our distinguished chairman, and one who may be regarded by some as being slightly more conservative, though I hestitate to pin any labels on either you or me, it seems to me that the witness in all fairness ought to be given a chance to read the full article.

I think there is great danger in excerpting what is said in a story and I would hope maybe that you might be willing to let the Secretary read the full story and then to submit in writing such comment as he may wish to make.

I think that he needs to at least be given the background of the story.

Maybe I am being too presumptuous?

Secretary Dent. That is why I asked if he would read it.

Senator Ribicoff. I am not trying to put you on the spot, Secretary Dent, and I don't expect you to give me all the answers.

I am using this platform to tell Mr. Arbatov to mind his own damned business.

Senator Hansen. I join with you on that, Mr. Chairman.

Senator Ribicoff. And to tell Mr. Arbatov and the Soviet Union that the development of East-West trade is definitely a concern of the Congress. I don't think that there has been a stronger advocate of East-West trade in the past than myself.

I filed a special report advocating greater East-West trade and most-favored-nation status for Communist countries with this committee after my visit to Rumania and Hungary, where I addressed a major conference on East-West trade.

I recognize the importance of East-West trade for developing relations between nations. But I am also concerned with the basic moral issue presented when exorbitant ransom fees are now being levied against Soviet citizens, and particularly a segment suffering from discrimination, as a condition for permitting them to emigrate from the Soviet Union.

To have Mr. Arbatov come to the United States of America and before an audience of American businessmen then tell them to use their influence and pressure on the Congress of the United States against a legislative proposal, the Jackson amendment, which is a very live proposition, and threaten that the Jews of the United States will be subjected to anti-Semitic actions by the people of the United States, is presuming upon the goodwill of the people of the United States. Mr. Arbatov, who is head of the Soviet Institute for U.S. Studies, should be recalled from this country by the Soviet Union. All he can do is make mischief, and harm relations between the Soviet Union and the United States. He is the one that is causing harm to détente, not the Congress of the United States.

You don't have to comment on that, Mr. Dent.

You happen to be in the witness chair today and I read this article this morning. There is no reflection upon your own attitude and you need not even comment.

Secretary Dent. I would like to comment, and it is unfortunate that anyone would tell the Congress of the United States about its business.

I agree with you, that it is an independent body that should be guided by its own thinking.

Senator Ribicoff. Thank you, Mr. Dent. The operations of multinational corporations are truly international and this isn't just an American problem. The OECD, for example, has a special study being made on multinationals. You can go to almost any country in the world and find concern over the operators of the multinationals.

Do you believe there should be some kind of international code of conduct as to how all nations will treat the multinational corporations?

Secretary Dent. It seems to me that the growth of the multinational corporation is relatively new in the development of international relationships and consequently is drawing attention at this time as it moves along.

At the same time, we are finding that men are living much closer together, with the airplanes and so forth, and this is a natural response to this.

It seems to me that until there is greater inequity shown with respect to the treatment of multinational operations, be they American or other, it is far better to avoid the development of another tier of control and direction than we now have, and consequently, at the present state of the art and the present state of world conditions for multinational operations, it seems to me that it would be unnecessary to add that tier.

Senator RIBICOFF. Mr. Secretary, it would seem to me from my own observations and experience that the U.S. Department of Commerce really doesn't do enough to help American businessmen export abroad. Small countries, such as Austria and Switzerland, expend much more in funds and personnel relatively to help their nationals export their products abroad than the United States.

Are there any plans in the Commerce Department to expand American exports and tourism from abroad now that so many countries have excess dollars? What are your plans?

Secretary DENT. Senator, one of the first things I did after the swearing-in ceremony was to ask the Department to review all of the export initatives which presently are in effect, not only in our Department but in all departments. We intend to develop and submit to the President recommendations with respect to expanding our export incentives in this country.

As for the tourism, as you know, last year I believe we had a deficit of payments because of American tourists going overseas, totaling $3 billion.

The U.S. Travel Service is a part of the Department of Commerce. We have gotten $9 million with which to operate this year.

We have developed a marketing plan whereby we intend to be able to evaluate within 12 months' operation what kind of a return we have gotten on this investment.

If we can show a return on the investment, as is done in business, hopefully we will get an expanding investment in this.

As we look to 1976, there should be great appeal to overseas travelers to come to the United States. This is a relatively moderate amount of money when you consider the potential.

Senator RIBICOFF. I would appreciate your supplying this committee the amounts being spent in dollars and the number of personnel employed by other leading trading countries in promoting exports and tourism. Would you supply us with these materials?

Secretary DENT. Yes, sir. You might be interested—offhand, I do know Canada expended $17 million in attracting U.S. tourists to Canada alone and we have $9 million worldwide.

Senator RIBICOFF. I think it is a very shortsighted policy and, under the circumstances, we ought to change it.

Thank you very much, Mr. Secretary. I do appreciate your appearing before us.

(The material requested by Senator Ribicoff follows):

PERSONNEL AND BUDGETS TO SUPPORT NATIONAL EXPORT PROMOTION PROGRAMS

In FY 1973, personnel directly engaged in the U.S. Export Promotion Program totaled 530. Several of the European countries as well as Japan reported that the number of persons engaged in a similar capacity totaled well over a thousand. A comparison of budgets established for the purpose of promoting exports reveals that the United States and Canada individually had budgets of over $16 million. Budgets established to promote exports ranged from a low of $14.8 million in Germany to $53.3 million and $76.7 million in France and the United Kingdom, respectively. Japan's budget to promote exports was $41.4 million. Personnel and budgets of other selective countries are as shown in the following table:

BUDGET AND PERSONNEL LEVELS OF NATIONAL DIRECT EXPORT PROMOTION PROGRAMS

[Dollar amounts in millions]

	Personnel		Budget	
	Fiscal year 1972	Fiscal year 1973	Fiscal year 1972	Fiscal year 1973
Canada	270	547	$13.3	$16.3
France	1,175	1,205	49.5	53.3
Germany	350	350	12.5	14.8
Italy	1,340	1,340	32.1	35.5
Japan [1]	1,154	1,154	41.8	[2] 41.4
United Kingdom [1]	1,100	1,100	71.5	[2] 76.7
United States	525	530	16.2	16.7

[1] Fiscal year is Apr. 1 to Mar. 31.

[2] Estimated.

BUDGETS OF NATIONAL TOURIST OFFICES

The United States budget to encourage tourism amounted to $4.5 million in 1970. This budget level in comparison with that of some 24 foreign countries places the United States 19th on the list. The amounts other countries budget on promoting tourism and the rank established on this basis are as follows:

1970 TOTAL ANNUAL BUDGETS OF NATIONAL TOURIST OFFICES

Country	Rank	Amount
Argentina	13	$6,997,743
Bahamas	14	6,696,636
Belgium	18	5,680,000
Bulgaria	21	3,800,000
Canada	3	11,197,000
France	15	5,741,146
Germany (West)	25	3,048,142
Greece	7	9,437,973
Hungary	20	4,120,000
India	4	10,050,133
Iran	16	5,859,087
Ireland	2	13,800,000
Israel	5	9,994,000
Italy	10	7,500,000
Japan	23	3,157,519
Korea	8	8,196,419
Mexico	11	7,413,040
Netherlands	24	3,087,600
Philippines	9	7,813,816
Poland	17	5,687,928
Rumania [1]	1	53,521,000
Switzerland	22	3,598,500
Turkey	12	7,289,758
United Kingdom	6	9,617,040
United States	19	4,500,000

[1] Total figure includes tourism plant capital expenditures by the national tourist office.

Senator RIBICOFF. Our next witness will be Mr. Samuel Pisar. We welcome Mr. Pisar today.

This invitation to testify was extended to Mr. Pisar because I cannot conceive of any hearings on multinational corporations without the benefit of Mr. Pisar's views.

I feel that Mr. Pisar is probably the world's outstanding expert on East-West trade and what he doesn't know about the operations of multinational corporations I don't believe is worth knowing.

This perception and understanding of this subject should be very valuable. I am grateful to you, Mr. Pisar, for your traveling from Paris to Washington at your own expense to give us the benefit of your views.

Will you proceed, sir?

The CHAIRMAN. If I might interrupt for a moment, I am going to be compelled to leave at 12 o'clock noon to attend a meeting with some constituents from my State which has been scheduled for some time.

Mr. Chairman, I want to congratulate you on prevailing upon Mr. Pisar to come here and give us the benefit of his views. I have attempted to give justice to his book on this subject and I must say it is undoubtedly the most learned and erudite study in international trade I have ever seen.

I regret to say that it is so packed with information that it's sort of beyond the ability of one who hasn't had a great deal of experience actually in conducting negotiations and drawing contracts in international trade to fully understand it.

I regret that I will have to leave before Mr. Pisar is through. If he is back this afternoon, I will avail myself of the opportunity to ask him some questions; otherwise, I want to assure him I will follow with interest both his testimony as well as his response to interrogation before this committee.

I am happy to see you here, Mr. Pisar, and I appreciate the help that you have given this committee in this study.

Senator FANNIN. I would like to add my welcome to Mr. Pisar.

We are very impressed with the excellent work he has done previously. It has benefited this committee tremendously. We have had the opportunity to counsel with him and receive his guidance, and have the opportunity to benefit by his writings. It has been valuable and I do want you to realize how much we appreciate your support in obtaining information that we badly need on this subject which we are covering at this time.

STATEMENT OF SAMUEL PISAR

Mr. PISAR. Mr. Chairman, I thank you and the other members of the committee for your kind words. It is a tremendous honor and privilege to be before you today, particularly since you have invited me to testify for the second time in 20 months.

I have prepared a brief written statement of the oral testimony I propose to offer this morning. On your list of distinguished witnesses you describe me as an international attorney and author, and I assume, therefore, that you expect me to address myself to this issue both from a practical and from a theoretical point of view. I will try to do so.

I suppose that I do have a rather peculiar perspective on this problem, because I practice law both in the United States and in Europe, and I can observe the multinational corporations in action both at home and aboard.

I have not brought with me a lot of facts, figures, and statistics.

Senator Ribicoff. General Motors supplied us with those, an ample supply.

Mr. Pisar. I also know the excellent work done by your staff in compiling materials and I will, therefore, restrict myself to an overall view of the subject.

These hearings have greater significance than meets the eye. Too many people still look at the world in terms of political and diplomatic happenings. I believe that the economic, the commercial, the monetary side of things is not being emphasized enough. Yet these are perhaps the main area in which nations deal, and compete and collide with one another, today.

Moreover, these hearings are, in my opinion, crucial not only in world diplomatic, political, and economic terms. They really have to do with a very basic philosophical question: What kind of international society, what kind of international order are we going to have in the future?

Your inquiry into the multinational corporation takes place in the midst of a cyclone that is sweeping the money markets of the world and bending to the limits of endurance the established rules of world trade. This cyclone is engendered by new and untamed economic forces. Yet there is an excessive tendency these days to brood over the problems and to overlook the promising, even exciting, aspect of the multinational phenomenon.

This phenomenon cannot be viewed in splendid American isolation, by sole reference to its impact upon our domestic economy. My own experience impels me to stress the international dimension of the difficulties and opportunities that lie ahead, and to offer you a perspective of the role of the multinational corporation not only in the Western World, but in the Eastern World as well, and in the rapidly changing relationship between East and West.

The thesis I would ask you to consider is that the world has become caught up in an unprecedented and, in my opinion, wholesome quest for economic integration. Inexorably, mankind is groping toward unity, not in the manner Wendell Willkie envisioned, nor through the establishment of world government, but through the mundane, pragmatic, yet highly compelling, process of the marketplace.

I see the economic instincts of man—in the West and in the East—reaching out across artificially created political and ideological boundaries to join in a common cause: the promotion of peaceful commerce and industry. This development has enormous potential for the welfare and well-being of all humanity. Once peoples and governments become inextricably tied to one another by economic self-interest, the specter of instability and war begins to recede.

Whatever its faults and abuses—and I do not wish to belittle them—the much maligned community of multinational corporations must be recognized as standing in the forefront of this process. Having helped to fuel a decade of prosperity across the national frontiers of the West, it is now storming across the ideological frontiers of the East.

Paradoxically, at the same time that American companies doing business abroad are coming under fire from nationalism, protectionism, unionism, and youth in the capitalist world, it is being welcomed with open arms by all segments of society in the Communist world. Why? Because of their unmatched advantages that neither Adam Smith nor Karl Marx could ignore: the ability to bring technological innovation, to develop management skills, to create jobs, to pay taxes, to expand exports, and to generate foreign currencies.

It may be unprecedented, but there is nothing inherently wrong when mature and intelligent men of diverse political and ideological persuasions seek to treat the world as one market, one unified field of action for investment, for production, for distribution, and for exchange, without regard to the arbitrary state barriers that have come into existence by accidents of history or force of arms. Their dynamism is generated by a simple principle: optimum effcieincy. In order to carry out transactions on a global scale, both peace and stability are indispensable to their efforts. Because of this they are a force for progress.

The multinational corporation is not a purely American invention. Comparable Japanese and European companies are growing in number and scope. The Common Market countries are encouraging the creation of Europe-wide enterprises and groupings under a proposed harmonization of national company laws.

Nor is the multinational corporation a purely capitalist device. It is fascinating to observe the emergence in Communist states of special enterprises and special laws designed to make possible the conduct of business in the world economy. In recent years the Soviet Union has begun to multinationalize its activities in Western financial markets through banks chartered in London, Paris, Zurich, Frankfurt, Teheran, Beirut, Singapore, and Tokyo. Other Eastern European countries have gone so far as to establish common banking institutions with leading Western banks. Moreover, Communist-state firms are internationalizing their economic activities in the capitalist world through offshore subsidiaries and joint profitmaking ventures with capitalist partners. I would not even be surprised if the Chinese, who have already reversed the course of their foreign trade from the Communist East to the capitalist West, adapted themselves in the near future to the advantages of multinational enterprise.

The flourishing of global economic endeavor in West and East is, I believe, an integral part of the creation of a true world economy. The process has a historic significance of which we are perceiving only the faintest beginnings.

It is a startling fact that this revolutionary development has outpaced the political preparedness of governments and legislatures to cope with it. For the multinational corporation is a futuristic 21st-century concept operating within an outdated 19th-century political framework. Its vitality has shattered the old rules of the game and enabled it to step over the obstacle course of state borders, institutions, regulations, and other national limitations within which business activities have heretofore taken place.

In short, the modern businessman has been far more dynamic, inventive, and successful than the modern politician in meeting the challenges of a changing world. If I may say so, Mr. Chairman, with all due respect, it is now time for the world's political leaders, in Washington and in other capitals around the globe, to create a new political setting in which the drive and genius of multinational enterprise can be harnessed for the benefit of mankind.

Unfortunately, the tools we possess are primitive. Meaningful self-regulation by the multinational corporations themselves cannot be expected. Internationally agreed-upon rules—the ideal solution—are a long way off in a world of competitive and often hostile states. Legislative and administrative action at the national level leads to a restrictive environment in which the hopes of multinational enterprise cannot be realized.

The correct answer lies in a two-pronged approach. For the long term there must be concerted efforts, among governments and corporations, to construct a framework of appropriate guidelines, and gradually to give them the sanction of law. In the meantime, the understandable impulse of national authorities to eliminate abuses must be handled with restraint because an overregulated international wilderness of conflicting measures will stifle in its infancy a force that holds enormous promise for the future.

Like the ancient struggle between church and state the relationship between economic power, which is becoming increasingly multinational, and political power, which is remaining stubbornly national, is today an issue of universal significance. It is an issue which, below surface appearances, preoccupies the Communist East no less than the capitalist West.

I have likened the current confrontation between the nation state and the multinational corporation to the dispute which eight centuries ago pitted Henry II, King of England and France, against Thomas à Becket, Archbishop of Canterbury. What was supreme, the temporal might of the national crown of Britain or the spiritual power of the multinational church of Rome? That contest ended with murder in the cathedral.

Of the two contemporary contestants, one will fall casualty again unless both learn to respect the separation between political and economic responsibility. In the ultimate analysis, they are not adversaries. Their common enemy is poverty, disorder, and war.

Either the multinational businessman and the national politician will rise to this challenge and lead man to a new threshold of peace, prosperity, and progress, or we will sink back into the past, and return the burgeoning international economy into the xenophobic grasp of nationalism and ideology. The challenge calls for a brandnew mentality which is at once postnational and postideological.

Mr. Chairman, I heard with tremendous interest a few minutes ago Senator Russell Long's questioning of Secretary Frederick Dent, and I was impressed by the Senator's description of the problems that the United States is facing in its competition with other countries and his allusion to the possibility that this country may gradually be moving toward bankruptcy.

Senator Ribicoff. May I interrupt?

In view of your having to leave for a previous appointment, Mr. Chairman, as Mr. Pisar proceeds you certainly should feel free to interrupt and ask questions.

Mr. PISAR. I must say, Senator Long's comments have started to shake some of my own convictions. Nevertheless, I do believe that this phenonmenon cannot be viewed purely in terms of its impact on our domestic economy, important as that is, of course.

My own experience suggests that we must focus on the international dimension of the difficulties and opportunities that lie ahead.

The CHAIRMAN. If I might interrupt?

I have read your statement. It is a very fine statement that you have and I think that in your statement you do put your finger right on the problem, that these grateful multinational corporations have a tremendous potential for good for the entire world.

The question is whether internatonal agreement and international understanding between the nations in which they operate can catch up with the corporate structure and the trading sophistication of these nations to gain the advantage that could be gained from these type institutions.

I believe that you are entirely right about that.

The only question I would like to ask you, because I am going to have to leave shortly, can this Nation—how long can this Nation continue to sustain a balance-of-payments deficit on a liquidity basis of $22 billion deficit a year?

How long can we keep up a balance-of-trade deficit that we think on any fair estimate would be $14 billion a year? How long can we keep that up, knowing that we have $65 billion of Eurodollars floating around, which keep expanding every year?

Senator RIBICOFF. About $80 billion.

The CHAIRMAN. Of course, that is being loaned out three or four or five times over.

How long can we keep that up before the trading partners such as France, where you have an office, Britain, where I believe you have an office, and others, say to us that we can no longer rely upon the American currency? How long can we keep running these huge deficits?

Mr. PISAR. The answer seems quite clear. This Nation cannot indefinitely support this type of deficit, a deficit which is becoming progressively worse. There is absolutely no doubt about it.

But the question arises how to solve the problem that the existing international trade structure, the monetary structure simply cannot keep up with the explosion of worldwide business, with the competition of other nations, and with the activities of multinational corporations themselves.

What is needed, and what is very difficult to do, is to build a completely new framework for a type of economic and business activity that the world has never known before, activity that is treating the entire world as a single unified field of action.

The framework that was built a long time ago by legislators and governments is straining under the impact of this new phenomenon. If this phenomenon is to be preserved, and I think it should be, because it has very attractive aspects to it, just as it has some questionable things about it, it is urgent that we find a new approach, a new framework. What we must do is take from the multinational corporation that which is good and channel it so that it becomes a positive social force for all mankind without harming any nation, particularly the United States.

Senator Ribicoff. I wonder if you would agree with Secretary Dent that, in view of the nature of the problem, an international code of conduct or regulations governing multinationals isn't needed?

Frankly, I believe that the soul searching going on all over the world, not just in the United States, indicates that, if there isn't some international code of conduct, the conflicts you talk about will lead into a serious clash between the state and the multinationals. I would like your comments on that.

Mr. Pisar. A code of conduct is what is needed, but how will it be brought into existence, and will it be observed?

I don't believe it is practical to expect the multinational corporations themselves to establish and respect a self-regulatory code.

I believe that they should aim to develop ground rules and that they should exercise restraint while continuing their worldwide activities. While I am idealistic about trade and its impact on peace, on freedom, on progress, I do not think that we can expect the multinationals to solve the problem entirely by themselves.

Senator Ribicoff. Couldn't this be developed in future trade talks and agreements, because, as I get the thesis of your statement, you recognize that it is a new phenomenon that can't be stopped; it is a progression in the world's economy, the multinational, because of the way we are organized as an industrial society.

What creates concern, as Senator Long points out, is a gradual shift of employment abroad, and the invasion of the American market by technologically competent advanced nations like West Germany and Japan. This generates large unfavorable trade balances that keep on growing. These will be generated to even a greater extent if solutions are not found to the energy crisis and we have to pay out another $15 billion to the oil-producing countries in the next few years.

Specifically, a case I have in mind is this: Litton Industries acquired the Royal Typewriter Co. in Hartford, Conn., a 60-year-old company. They discovered that the average hourly wage was $3.60 an hour for their employees.

They also have a typewriter company in Hull, England, where the hourly rate is only $1.20 an hour. And 55 percent of the cost of making a typewriter is directly attributable to labor.

Sizing up this situation, Litton realized they couldn't remain competitive paying $3.60 an hour. Since they can produce the typewriter in Hull, England, for $1.20 an hour, they shut down their plant in Hartford, and 1,700 people were thrown out of work.

Litton Industries is a vast conglomerate. They have any number of different products that they produce. I would imagine they must produce products at a profit paying a $3.60 wage rate. I am using Litton as an example.

Doesn't Litton have certain obligations to its employees, to the Hartford community, to consider an alternative production in that plant before they shut it down so that the impact upon their people and the community would not be so serious? What do you think the social obligation of a multinational corporation should be toward its employees and community in which it operates?

Mr. Pisar. Mr. Chairman, this is a fascinating and challenging question, and I will attempt to answer.

There can be no doubt that Litton or any other company closing down a facility that gives employment in Connecticut is harmful to the people and the State.

But if companies of this type were prevented from going where they can manufacture most economically, and if you were to multiply this prohibition a thousand times, other countries would retaliate, and the result would be that the world economy that is burgeoning today would be divided up into small bits and pieces. Instead of moving into the future with this new multinational force that we haven't learned to master yet, we would be moving into the past.

Now, to say to a company, by legislation or whatever, "It is your social obligation not to leave the State of Connecticut but to continue to provide employment even though you may have to go into another line of business," would be going very, very far.

There is a great danger in telling business people to assume the responsibilities of others; for example, of politicians.

I have alluded to the modern struggle between the state and the multinational corporation similar to the struggle between church and state in ancient times. And because that struggle was at times deadly, the doctrine of separation between church and state was developed.

I think it is essential to maintain a separation between the responsibility of the businessman and the responsibility of the politician or the legislator. I am afraid that business would suffer a setback in its inventiveness, in its practicality, in its dynamism, if it were invited to stress social responsibilities at the expense of economic responsibility.

If you look at the Communist countries of the East, this is exactly what is happening. They have not maintained the separation between economic responsibility and social responsibility. Everything is the state.

The state is in politics, the state is in business, the state is in banking; and because of that, they have found themselves very much behind us, agriculturally, industrially, and technologically.

My own suggestion for an approach to this problem would be along the following lines:

Instead of teling these companies, "You cannot leave the State because people are losing jobs; you are prohibited from leaving just because of the difference of wages between Connecticut and England." Instead of doing this, it would be better to do something about the level of wages in England, in Japan, in Germany, and in other countries.

In other words, I think the labor unions of the United States, instead of requesting protectionist legislation from Congress, would in long term be wiser to stretch out a helping hand to labor unions in countries where wages are lower, to teach them the American collective bargaining process, and to help them improve their working conditions, their compensation, their retirement benefits, so as to equalize the differential.

By approaching it in this way, the differential between Connecticut and England could be gradually reduced or eliminated while at the same time accomplishing a useful social purpose in this country and abroad.

If I may, Mr. Chairman, I would like to go one step further. Let us take consumerism, which is a very lively issue today in the United States.

It would make sense for people like Ralph Nader and those who believe in his ideas to spread their efforts from the United States to other countries—to, say, to the Japanese, for example: "Your cities are being polluted, your workers are underpaid, you don't get sufficient vacations, your young people should get into the act of creating pressure on the business and industrial community to take steps against these abuses." Instead of only attacking American corporations in the United States, which increases their costs and makes their competitive position relatively weaker, it would be better to extend Naderism multinationally, so that it can follow in the tracks of the multinational corporation, by improving conditions, eliminating cost differentals abroad, thus furthering a positive social purpose in these other countries.

Senator RIBICOFF. That would take a considerable period of time, and this Nation is now faced with immediate problems.

As you can tell from Mr. Long's questioning and the questioning of other members of this panel, there is practical concern over our declining export position as a permanent feature. Exports as a percentage of total production is 14 percent for the United States, 31 percent for Japan, 38 percent for Germany, 48 percent for the United Kingdom, and 67 percent for Canada.

In the United States, you have a great power which must insure the vitality of its basic industries: automobiles, steel, chemicals, and electronics.

There is an unwillingness, and rightfully so, to see the destruction of these basic industries. In addition, every Member of the Senate and every Member of the House must be concerned with what is happening to employment in industries back home. Whether it is cattle in Wyoming, or whether it is copper or minerals in Arizona, or whether it is machine tools, ball bearings, or airplane engines in Connecticut.

As we watch a decline in our trade position in the world, we see the growing technical competence of European countries. We see the differences in wages that cause shifts of production to wherever the wages are lower.

When the Japanese find that it is cheaper to make transistor radios in Hong Kong, they shift to Hong Kong, or Taiwan, or South Korea. I suppose they might soon be shifting to South and North Vietnam.

This is a natural progression. As you watch the decline of American employment in manufactured goods, you must realize that the United States in the next decade will have to find jobs for 20 million more people. This is the size of the increase of the American job market in the next 10 years. If you talk to the Japanese or the Germans about this, they say the United States should concentrate on the service industries. But no great nation is going to devote itself to serving others.

When you talk, Mr. Pisar, of possible solutions, there is an obligation, it seems to me, by Government and industries to try to solve this very knotty problem together. These dislocations will continue worldwide, and nations cannot continue to act solely on the basis of short-term selfish interests.

How do you reconcile international good with national necessity in order that you don't begin trade wars? Other nations must understand that a nation like the United States must remain economically viable.

Mr. Pisar. Mr. Chairman, I fully agree with you, your definition of the problem and with Senator Long's definition of the problem. But I would like to suggest that there is no solution in sight. There is no solution because the tools we have are no longer adequate.

What could be the way out of this problem? We could close our borders and say that we are going to operate basically a nationally self-sufficient economy, and, as an inevitable result, other nations would act alike. When I say that this is dangerous, I am not thinking idealistically of international understanding and of good fellowship among men. I am thinking of the self-interest of this country as well.

The United States cannot continue the level of prosperity that it has had and discharge its responsibilities in the world if it were to move back and build a wall around itself economically.

There is, therefore, no solution to this completely new problem, and I know that my statement sounds depressing, unless we approach the problem with a completely new mentality.

Other nations will not restrain themselves sufficiently, for we still live in a world of hostile and competitive states. We don't have an international or a supernational parliament or authority to legislate an adequate economic order, and, of course, this is what is needed. This is the ideal source from which a solution could come.

But it is just not in the cards because political developments in the world have lagged far behind economic developments.

What remains is the prospect of national regulation, taxation, et cetera, and this again leads to an environment in which the world economy and the multinational corporation cannot live up to the promise they hold. National overregulation could bring a regressive movement that would take this country and other countries economically into the past.

Senator Ribicoff. May I say to my colleagues, Senators Fannin and Hansen, please feel free to interject any question at any time.

You understand the mentality of the Europeans, and also that of the Communist countries which you know so well. Why is it right for President Pompidou to proclaim he will act to protect French agriculture even though the common agricultural policy of the community will cost the consumers of other Common Market countries anywhere from $12 to $14 billion a year while it is wrong somehow for President Nixon to try to protect a basic industry in the United States, even though its loss might cause great economic damage to Americans? Why do the French or the West Germans feel such a policy is right for them and wrong for us?

Mr. Pisar. It is not all right for them to protect their markets. We must use whatever levers we have to make them open to our agricultural exports.

But the problem, of course, is complex and we must look at the viewpoint of the other country as much as our own.

They are trying to build a Common Market, a similar common market to that which this country had started to build 2 centuries ago.

We have encouraged them in this. Perhaps not so much for economic reasons—even though that was a good way of rebuilding Europe—as for political reasons, because we had serious strategic and security problems.

We had to worry about the safety of the United States and of the rest of the free world.

Having built the foundations of their Common Market, the Europeans have come to realize that, among several member countries, some are more efficient in one area and some in another area. Mr. Pompidou knows that France is more efficient in the field of agriculture, so the French have tried to give themselves an advantage in this particular sphere in order to be able to survive in a market where the Germans, the Dutch, and the Italians have the edge in many types of industries.

Now that the Common Market has grown into a powerful economic bloc of nine member states, with a combined economy that is almost as large as that of the United States, and with very substantial hard currency and gold reserves, there is absolutely no reason why there should be more protectionism in agriculture and industry than in the United States. This is why I believe the present administration should be congratulated on its energetic, hard-nosed demands for an international trade negotiation that would restructure the entire commercial system of the world.

Senator Ribicoff. What you say is correct. The United States has devoted itself to building up the economics and defending the European countries.

In fiscal year 1973, our security assistance to foreign nations is almost $6 billion. Our development and humanitarian assistance is over $4 billion, for a total cost of in excess of $10 billion. Although we have such a severe payments deficit, we still spend about 8 percent of our gross national product for defense while France spends only 4 percent; West Germany, 3.3 percent; and Japan, less than 1 percent.

In view of the strong economic and monetary positions of our major trading partners, why shouldn't they now assume a greater share of the burden of both their own defense, the defense of others, and development aid assistance?

The United States will soon be called upon to rebuild North and South Vietnam to the extent of $7½ billion. I can see the Europeans saying, "We didn't approve of that war. The United States was involved with that war; let the United States pay the bill."

But the United States went ahead and built up the economies of its enemies, Japan and Germany, after World War II. While we were spending large sums of money on defense, they were devoting their energies to building up their trade and modernizing their technology. They have succeeded in this beyond anybody's wildest dream.

Now, shouldn't these rich countries, particularly Germany and Japan, assume greater worldwide responsibilities which the United States still assumes?

Mr. Pisar. Mr. Chairman, I can only agree that these wealthy countries should assume a larger share of responsibility, first, in the area of military security, and second, in the area of help to less-developed countries.

On the issue of Vietnam, I cannot pretend to be an expert, but as a concerned human being, I see a peculiar problem that the United States faces.

Somehow, we have managed, after the Second World War, through our economic assistance and ingenuity, to build up former enemies, to help them develop a sense of self-confidence, and to turn them into friends.

This is true of Japan; this is true of West Germany.

I believe that we have a moral obligation to do something similar for Vietnam, both North and South.

I believe that we have to give them economic incentives for maintaining the peace. Morally, it is difficult in this particular case to say to other nations: "You should shoulder a major part of this responsibility."

One can only hope that, as allies of the United States, these countries will be broadminded and say, "Even though we did not approve of the Vietnam war, even though we did not participate, and pleaded with the United States to stop it a long time ago, we will, nevertheless, put in our efforts and some of our wealth to help reconstruct Indochina, just as the United States has helped us get on our own feet after the devastation of the Second World War."

Senator RIBICOFF. I would like to shift gears a minute. There is no greater expert on East-West trade than yourself. What do you see as the development of the Communists' multinational corporations and their relationships to American labor and industry?

Mr. PISAR. It is a fascinating fact, Senator, that the Communist countries today are busy latching onto the world economy, the same economy in which capitalist corporations, multinational and other corporations, have been so active in the last decade.

They are latching onto the world market because they have realized that they cannot isolate themselves in their own bloc and produce only for a regional area. This is an historical fact and we must keep it in mind.

Stalin and his henchmen had the idea that they could develop an advanced, prosperous economy around the Communist nations of Eastern Europe, the Soviet Union, and China. That experiment has failed. Now they realize that, if they want to be in the forefront of technical ideas, of management ideas, of marketing ideas, and make economic progress on a broad front, they have to open their borders a little more, and ever more and more, because ideas in management, in technology, and in commerce, are more effective when they are tested against the cold shower of the world marketplace. As a result, what is happening today is that the Communist countries are going multinational in their business attitudes. The Soviet Union has banks abroad.

These are locally chartered banks that not only finance East-West trade but raise money, are active on the European dollar markets, buy and sell gold, and behave in many ways as capitalist institutions in the financial markets of the world.

The smaller Eastern European countries—Hungary, Rumania, Poland—have not only formed banks and corporations in Western countries, they have gone into joint ventures with capitalist enterprises for the purpose of making a profit. It staggers the imagination that a Communist state enterprise would form a company with a capitalist private enterprise where the equity is on a 50–50 basis, the board of directors is equally divided, management is jointly selected, and the object is to operate in the world market, as if the difference between the capitalism and communism didn't exist. In this way, ideology and dogma begin to take second place. Recently, it may interest this committee, the Communist countries have started to change their own laws. Yugoslavia was first to allow foreign investment. In 1971, Rumania passed a similar law, and now American companies, French, German, and Japanese, can and do acquire equity positions in corporations in Rumania.

Three months ago, Hungary passed such a law and is now moving far in this direction, and at the present time Poland, which until recently was a very restrictive Communist country, is beginning to loosen up and to negotiate joint ventures of this type.

A decade ago, 80 percent of mainland China's trade was with the Communist world. Now more than 80 percent is already with the capitalist world. As a result of the new relationship between the United States and Communist China, it is possible that the Chinese will also go in this direction. They have already purchased 10 Boeing aircraft. They are negotiating for the acquisition of industrial plant and equipment. Things are evolving quite fast in China which until recently was an intransigent revolutionary country, thinking that it would conquer the world and show everyone how society should be organized. Today it is softening up a little and beginning to realize that in the world of economics there is no magic, that the marketplace has its inexorable rules and that these rules have to be observed. All of this is happening because the Communist countries have tremendous problems. They are falling behind in agriculture and have to buy American wheat to feed themselves. If they are behind technologically, they are behind industrially. They are going multinational; if they are driving hard to participate in the new world market that has come into existence in the last 10–15 years it is because they feel this is the most efficient way to progress. This has great advantages not only from the standpoint of commerce and peace, but even from the standpoint of freedom. It also has some dangers, because they will become in due course competitors of the United States and of other Western economies.

Senator FANNIN. Mr. Pisar, the line of questioning that the chairman has made is very similar to what I had in mind. You have elaborated on what you had to say on page 2 of your statement, and elaborated on how this has happened, and then you come to a paradox in existence that American companies doing business abroad are coming under fire from nationalism, protectionism, unionism in the capitalist world. This is one of the great problems and then you state that because of their unmasked advantage, and then about the ability to bring technological innovation to develop management skill, to create jobs. expand, export, generate foreign currencies.

Well, the difference has been that these countries have a goal and they are working toward that goal, they are disciplining themselves and they are accepting the discipline. We happen to have a group that traveled to Japan, it has been almost 2 years ago. We arrived just after a visit by Ralph Nader and in talking to both the adults and to the young people it seemed they did not accept Ralph Nader other than as an irresponsible critic. They felt that he was imposing upon the beliefs in their country. I didn't receive or I don't have the feeling that they wanted his assistance or they would accept his assistance. They are so much better off than they were a few years ago and they feel that they are going forward.

Mr. PISAR. Are you referring, sir, to this self-discipline which does not allow outsiders to come in and have an impact on the economy, the society?

Senator FANNIN. Yes.

Mr. PISAR. I would say that that is particularly true of Japan, because Japan is a fairly monolithic country, it has remarkable discipline in its economy, almost a quasi-military discipline. But I would not like to make any comparison between Japan and the Communist countries.

If it is difficult for a person like Ralph Nader, right or wrong, to have an impact on the young people of Japan, on its legislature, to push for improved conditions in their country; it is 10 times more difficult to do anything along these lines in the Communist countries, obviously; in China, certainly in the Soviet Union, and even in Eastern Europe. But let us take a look at what is happening.

In the international economic game, it isn't really possible to maintain rigid military discipline and yet make progress. Experience shows that if the Communists want to latch onto the benefits of the world market they have to start relaxing their system. They have to open their borders a little. to allow tourists in, to send engineers and busiessmen to other countries, to see what can be bought, what can be sold. They have to reallocate their resources and efforts in such a way as to design, build, and package a product that the highly sophisticated markets of the United States and Western Europe will want to purchase.

They have to export natural resources and raw materials in order to get the hard currency they need to buy American wheat, American technology, and American equipment. And this is why the leaders of Soviet Russia have decided to ask help from American companies in mining Siberian metals, diamonds, et cetera, and in finding, liquefying, and shipping to the United States, to Japan, and to Western Europe natural gas which is needed because of the energy crisis that is sweeping our country and others in the free world.

And here we come to an even more fascinating thing.

They are beginning to realize more and more—and you will forgive me if I contradict you on this point, sir—that it is really impossible to maintain their system the way it has been and make economic and industrial progress. Their system is changing as they are evolving toward a more conformable consumer society with our help.

Senator FANNIN. You are speaking of the Communist countries?

Mr. PISAR. Yes. sir.

Senator FANNIN. I agree with you. I am not disagreeing with you at all.

Mr. PISAR. If they continue to buy from us material goods, even equipment, they will not move ahead very fast. What they must learn is how to invent better, how to create better, and this cannot be done unless minds become more free. The inventor cannot invent, the manager cannot manage, the salesman cannot sell effectively for the entire atmosphere is heavy with lack of freedom and in that kind of atmosphere there cannot be sustained economic progress.

Looking at other countries, I would have to say that Western Europe is today at the other extreme of the Communist countries and Japan can be contrasted too. Our own ways of thought have had a beneficial impact on the societies of the West. Germany was a rigid militaristic nation before the war and there was fear that it might lapse back into this type of mentality. But somehow with our help they have learned to open their economy and to open their society. It has become a mobile society. England is becoming an increasingly mobile society and so is France. Ralph Nader came to France also. I was asked to debate with him in public and I did. Of course, it is very difficult to disagree with Ralph Nader.

I could observe how he was having an impact on the press and on the young people, by saying to them, "You are not doing your job; you should go after your business community, after your industrial community, to make sure that your cities are not polluted, that your workers are not exploited, and the consumer gets a square deal."

What remains is the less developed world. Here we are dealing with countries that are trying to develop democratic institutions and they have a very long way to go before we will have an impact on them. But the good thing about the multinational corporations is that, by going to these countries, by showing them how to manufacture consumer goods and build basic industries, the American businessman is performing a useful function. While being the proverbial Yankee traders, without a rigid ideology, because we really don't have one, with our pragmatic turn of mind, our efficiency, our inventiveness, we help other countries raise themselves up. While there are abuses from time to time, to be sure, this is more effective and more useful in the long term than what we can accomplish with our costly military establishment and other means that are such a drain on the balance of payments.

Senator FANNIN. I agree with you, as far as an instrument to assist these other countries in the world, the multinational corporations have been very prominent, even in many instances much more prominent than AID programs, because it is just not building for today but it is building for a longer period of time. They have worked with other countries beneficially and now we are up against the problem of determining if we can continue those programs and face the energy shortage we have in this country, and purchase the needed petroleum supplies from the other countries of the world and still be able to stay fiscally solvent. That is the tremendous problem facing this committee.

Senator HANSEN. Mr. Chairman, I know it is late, but I have about three questions I'd like to ask you.

Mr. PISAR. I would be delighted to attempt to answer these questions.

Senator HANSEN. From many of the submissions by business organizations as to why they must invest abroad, and from the outcry of labor over multinationals and export of jobs, I am getting the strong feeling that the key issue boils down to protectionist trade policies of our major trading partners, and the relatively free and enormously attractive U.S. market.

Do you have any thoughts on how the United States can pursue a practical, hardheaded trade policy in the best interest of American business and labor—particularly in the light of the emergence of a massive European bloc and a very closed Japanese economy?

Mr. Pisar. I believe that a practical, hardheaded trade policy is coming into shape at the present time, although it is still too early to say whether it will go far enough or, indeed, too far. The recurrent upheavals in the world currency markets have now taught most governments a lesson. All are threatened by chaos in their economic relations unless the monetary system is basically and quickly overhauled. The devaluation of the dollar is an expression of hardheadedness which should significantly improve the trade posture of the United States and serve the interests of business and labor. In my opinion a realinement of currency values is more helpful than a wave of protectionist restrictions and taxation burdens on the multinational corporations.

Another sign of hardheadedness is the way the stage is being set for a new round of trade and tariff negotiations within the GATT. I believe that our Government is determined to force open certain doors to the European Common Market and to Japan that still remain shut. I believe the West Europeans and Japanese have understood by now that the forthcoming Nixon Round will be tougher than the Kennedy Round and the Dillon Round.

Another side of the question is the fact that the free American market, with the added attraction of a cheaper dollar, will now be a greater magnet for European and Japanese investments inside the United States. This development could only be pleasing to American labor because it will create jobs. Again, cheaper dollars will give American manufacturers greater incentives to produce at home for export. Here, not Government policy but business mentality requires adjustments. Because our manufacturers live in the luxury of a huge domestic economy, they have never really developed a taste for exporting competitively into foreign markets. Other countries that have narrow domestic economies—England, for example—have learned a long time ago that exports are essential to their survival. The American business community, and it would be worth the while of our labor unions to give a push in this direction, should wake up to the huge potential of the world export market and undertake a much more energetic drive in this direction.

Senator Hansen. You suggest that the "understandable impulse of national authorities to eliminate abuses must be handled with restraint." Can you comment on the abuses you feel are evident, and the underlying reasons for these abuses?

Mr. Pisar. It cannot be denied that there are occasional abuses and resentments in this area. These abuses and resentments are now hotly debated, not only in the United States but abroad, wherever the multinationals operate. What are they? Obviously, interference in the internal political affairs of other countries is inadmissible. In my written statement I have stressed the need for separation between political and economic responsibility just as there has been found to be a need for separation between temporal and religious responsibility. I believe the allegation that multinational corporations make a habit of interfering in the politics of national states to be vastly overdramatized.

When President Allende of Chile states in the forum of the United Nations that his country is the victim of a "silent Vietnam" at the hands of the multinationals he is dramatically overstating a complaint that has some legitimacy, and inventing an alibi for the economic failures of his regime. Yet, a problem obviously exists and I understand that the Foreign Relations Committee of the Senate is currently inquiring into it.

Another abuse is situations where American companies establish manufacturing facilities abroad not only to supply the foreign market, but also to reexport back to the United States. While I am against fettering the businessman with undue restrictions, I must admit that I have some personal difficulties with this type of practice on grounds of simple morality.

Another area of possible abuses is currency manipulation. The top multinational companies that I observe do not appear to be speculating in the sense that they are not trying to reap big profits on monetary fluctuations. Their activity in this area is prompted for the most part by a desire to hedge and protect their position which, by the very nature of their worldwide operations, carries risks in numerous currencies. Nonetheless, the present monetary system is in such a shambles that those who wish to take improper advantage can easily do so and, in the process, add to the confusion. The Tariff Commission has pointed out in its recent report that the ability of the multinationals to move huge sums from one country to another at short notice can cause dislocations in money markets, in labor markets, and in other areas. These are universal problems today.

As to the underlying reasons for these problems, the basic one I would cite is the absence of an effective international framework of regulation. Multinational business, while a good thing in and of itself, has developed so widely and rapidly that the established institutions, laws, and treaties are simply exposed to too much strain. There being no international political authority with an ability to legislate and enforce a worldwide policy, the multinationals find themselves virtually in a legal no man's land. Those among them who practice a low standard of business behavior; for example, the IOS type of mutual fund management companies can abuse the absence of regulation and supervision with virtual impunity. For the most part, however, legitimate multinational business enterprises are more interested in long-term stability and growth rather than in short-term advantages. Even in the absence of an international legal system, basic business morality exercises a restraining hand.

Senator HANSEN. You suggest that the potential for conflict between the multinationals and nation states may be averted through a "framework of appropriate guidelines" that gradually take on the sanctions of law.

Do you have any thoughts on the nature of the guidelines of which you speak?

Mr. PISAR. Here is the crux of the entire problem—the need for a worldwide framework of rules that ultimately acquire the force of law. As I indicated earlier, I do not see where such a framework could come from, there being no commensurate worldwide system of political authority. In ancient times, when Rome ruled the civilized world, multinational business thrived under a highly efficient system of law. This was possible because Rome was an empire. As various provinces traded with one another and as businessmen operated within the multinational markets of the Empire, Caesar's writ extended far and wide, with the full force of legislative and judicial authority. Today there is no such empire and consequently no such authority.

However, there is another example in history which suggests a different approach. In the Middle Ages, business also flourished across Europe and other continents. The total absence of effective international authority at that time put pressure upon the merchants to get organized among themselves. This they managed to do quite effectively. While there were as many temptations then as there are now to abuse the legal no man's land, it is in the nature of things that responsible businessmen prefer long-term prosperity in orderly conditions to short-term riches in conditions of chaos. For this reason, merchants everywhere, and particularly in England, began to develop guidelines of their own. At first, these guidelines were observed here and there on a voluntary basis. But, with time, other merchants began to refuse to deal with those who failed to abide by these guidelines. Gradually, the guidelines became widely followed custom and, in the end, they received the sanction of law by decision of the British courts. The great 18th-century judge, Lord Mansfield, played a key role in shaping out of this confused wilderness of ground rules a great body of commercial law that came to be known as the "law merchant." Today, the law merchant is in force in most of the developed countries of the world, including the United States.

It is not impossible that a similar development might emerge within the community of multinational corporations, but it would take a considerable time.

Senator HANSEN. May I say I am gratefully impressed by your knowledge and expertise, and appreciate as do other members of the committee your appearance here this morning.

Mr. PISAR. Thank you, sir. If I may make one observation, Mr. Chairman?

Senator RIBICOFF. I was going to ask one more question. Do the Europeans and Japanese Governments encourage or discourage their companies to invest abroad?

Mr. PISAR. Today they strongly encourage them. It is one of the paradoxes you have to deal with. While we are beginning to question the multinationals they are encouraging them. Japan is pursuing a very aggressive policy to establish on a multinational basis corporations all over the world. A lot of my time is spent practicing law in the Common Market and I can observe this process at close range. You have Japanese banks established today in London, Paris and Frankfurt. You have Japanese industrial and commercial companies all over the map. And this is because they have this tremendous surplus of currency. They are gradually becoming the bankers of the world. In other words, the Japanese are really becoming in this decade what the Americans were in the last decade. The same is true to a somewhat lesser extent for the West Europeans, who also have surpluses. The German and the French Governments have a deliberate policy to make some of their large corporations invest abroad, including the United States.

They are still afraid of the American market. They are not used to the open rules of competition that this economy has known, and to strict antitrust legislation, but they are beginning to venture forth. European Governments are deliberately encouraging mergers and groupings among their companies and banks, so as to create larger enterprises that could more effectively compete with American multinationals, and this also is a healthy phenomenon, part of that post-national mentality I am talking about. As the Europeans encourage large corporations, as West German companies merge with French companies, and English companies merge with Belgian companies, the resulting units, because of their greater size, are no longer push-overs for the American multinationals. They are beginning to be able to hold their heads above water in competition, and this again will be a restraining force on the American multinationals that are tempted to go abroad.

Senator Ribicoff. You wanted to make an observation?

Mr. Pisar. If I may, Mr. Chairman, an observation on the perspectives of my testimony. Logically, this is really not surprising when intelligent and energetic men in the United States, in other Western countries, and even in the Communist sphere, say to themselves that the world is one field of action, one market, and the most efficient way of selling, buying and producing is when you work for a large economy, an economy that is as large as the planet. They do not like restraints on the scope of their activity that have come into existence by historical animosities and divisions.

There is something in this argument, in this quest, that is reasonable and challenging and I think in approaching the legislation that you are contemplating, vis-a-vis the multinationals, it is necessary to treat this new and bold mentality with a certain amount of respect.

Now, I am not going so far as to suggest that we are moving toward world government. That is a very distant dream. But what I am saying is that the practical instincts of man are creating for the first time a powerful economic force that is worldwide in scope and that tends toward unification. It is fascinating that the process is not only happening in the capitalist West but also in the Communist East.

In conclusion, allow me to say that while it is essential to regulate the multinationals, to eliminate their abuses, to save from extinction certain American industries, it is equally important to make sure that the multinationals are not assassinated in the process. For, in a way, they are like a bicycle. As long as they move forward they can stand up, but the moment they are slowed down by heavy restrictions, they would fall like a bicycle that is brought to a standstill.

Thank you, Mr. Chairman.

Senator Ribicoff. Again, on behalf of the committee, our thanks to you, Mr. Pisar. You have given us a philosophical basis upon which to understand the detailed problems that we have looked at involving different facets of the multinational corporations. Without understanding the nature of the multinational corporations you are not going to be able to come forth with solutions to the current trade and monetary problems facing the world. There is no question these problems are deep. Your friends abroad are going to have to understand the responsibility they ironically now have to the United States. They have been on the receiving end since World War II of our discharging our responsibilities to the rest of the world. The current situation may seem strange to them, because they still consider America to be relatively prosperous as we once were. We are still the greatest economic power in the world but we face problems that are generating unhappiness and frustration here. They may or may not be considered rational, but they are very real.

Sometimes it can be the nonrational aspects which are the determining factors of how men and nations will react. I find an unwillingness on the part of many Europeans or Japanese to understand this.

We will be undertaking new GATT negotiations beginning in September. It is going to take great wisdom both on the short and long term to work out solutions to the monetary and trade problems of the world.

There is a great reservoir of brains and wisdom in the multinationals. The people running these companies are probably as smart as any in the world. My feeling is that these same people are going to have to address themselves more to the overall problem, not just the the profit and loss at the bottom line of their balance sheets. Their future, too, depends on an understanding of the bigger problems.

Again my thanks, and I hope you will pardon me for not allowing you to finish your prepared statement. We can all read this statement, but I did want to get the benefit of this colloquy with you.

Mr. Pisar. Thank you, sir.

Senator Ribicoff. The committee will stand adjourned until 10 o'clock tomorrow morning.

(Thereupon, at 1 p.m., the committee was adjourned until 10 a.m., the following morning.)

MULTINATIONAL CORPORATIONS

THURSDAY, MARCH 1, 1973

U.S. Senate,
Subcommittee on International Trade
of the Committee on Finance,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10 a.m., in room 2221, Dirksen Senate Office Building, Senator Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Mondale, Fannin, and Packwood.

Also present: Senators Bennett and Roth.

Senator Ribicoff. Our witness is Gilbert E. Jones, chairman of IBM World Trade Corp.

On behalf of the committee, I do want to thank you for coming here today and giving us the benefit of your views.

When you think of multinational corporations, one of the first names that comes to anyone's mind is IBM, with your worldwide experience and familiarity with the product you produce.

Your remarks will have great significance to this committee. My appreciation to you, Mr. Jones, for appearing. Will you please proceed, as you will?

STATEMENT OF GILBERT E. JONES, CHAIRMAN OF IBM WORLD TRADE CORP.

Mr. Jones. Thank you, Mr. Chairman.

My name is Gilbert E. Jones. I am chairman of IBM World Trade Corp., IBM's subsidiary for business outside the United States. I consider it an honor to be here to testify at these important hearings.

There is no mistaking the fact that we have come to a crossroads in the evolution of American foreign economic policy. Decisions that will be made in the next few months by the Congress will affect future domestic and international economic patterns in fundamental ways.

For several years now, a public debate has been underway between those who regard multinational firms as a source of strength of the United States, and those who allege that they are not.

Despite governmental and private studies which show that the multinationals create American jobs, contribute strongly to the balance of payments, and are instrumental in developing crucial new technologies, doubts persist among the critics, and they must be confronted by those of us who do business on a multinational basis.

I intend to do so here today, not by repeating the standard arguments and data with which you are all familiar, but by concentrating on the experience of my own company. IBM is a high-technology company, and high technology is acknowledged to be one of the greatest strengths of the U.S. economy. So I will be talking to you primarily about IBM's role as an innovator, manufacturer, and marketer of high-technology goods in a worldwide environment.

Before getting into the heart of my discussion, I thought it might be helpful for the subcommittee to have a clearer understanding of what we mean when we use the phrase "high technology" companies. An obvious example, of course, can be found in the computer industry.

I'd like to show you how extremely rapid technological change has resulted in vastly increased computing power for our customers at continually decreasing prices.

In 1952, IBM announced its first large-scale electronic data processing system, the 701. This machine used vacuum tubes. I have one here, and this tube could do almost 2,200 multiplications per second at a cost of $1.26 for 100,000 multiplications.

Six years later, in 1958, we introduced the 7090, a machine whose basic circuitry was entirely new and made up of these silicon transistors.

The transistor that you see on this card is analogous to the tube that you saw before.

The 7090 did about 38,000 multiplications in a second, and the cost of 100,000 multiplications dropped to 26 cents.

In 1964, we introduced a new technology, SLT—putting a hybrid integrated circuit on a ceramic substrate—like this. That was the year we announced the System/360 Model 50. With that machine, the speed of computation was about the same as the 7090, but the cost of 100,000 multiplications dropped by more than half—to 12 cents.

I doubt very much if you can see the circuits on that chip, so, Mr. Chairman, with your permission I would like to give each member of the committee a magnifying glass so that you can look through it and see what that chip looks like. I am not suggesting that your age makes your eyes not as good as they used to be, but they are small.

Less than 3 years ago, we announced our System/370 series which utilizes these fully integrated monolithic circuits. With this technology, we have up to 10 logic circuits on a chip, instead of one. If you blow the circuit pattern up by 400 times, it looks like this photograph that I have in my hand. On this model, we could do 100,000 multiplications, not for 12 cents but for a nickel.

To complete my logic story, one of our latest computers— the System/370 Model 168 which was announced last year—can do over 2 million multiplications per second at a cost of 1 cent for 100,000 multiplications.

Those of us who work for the IBM Co. hope that cure will level off because if it ever goes negative we are in real trouble.

While I have simplified these comparisons for the sake of brevity, they illustrate my main point: the rapidly decreasing cost of calculations for the computer user coupled with increased computing speed.

The same kind of change has happened to computer memories. Our 701 in 1952 used a cathode ray tube memory which looked like a TV tube and which is too bulky for me to bring here today. In 1954, we introduced ferrite core memories which were the principal memory technology until very recently.

Here I have a display which I am going to pass around, which shows what a core looks like. When you look at the core, if you would bear in mind that each core could store one bit of information inside a computer by registering a zero or a one, I should also tell you that during the chronological development of the core, they become smaller.

By rule of thumb, the smaller the core, the faster the access time; and the smaller the core, the less current and the less heat is required.

As the technology improved, the core got very, very small, as you can see.

The same amount of money today will buy more than six times as much memory as it would have bought in 1967.

To try to illustrate my point, I have here a core memory which I would like to pass to the committee chairman, and that core memory has 16,000 of those little tiny cores in it.

Senator Ribicoff. Did you say 16,000?

Mr. Jones. 16,000. It stores 16,000 bits of memory, and each of the little cores has two wires going to it. The chip that I have in my hand here has 8,000 bits of memory, so two of these chips correspond to that entire core array.

I should point out that that memory chip which has 8,000 bits of memory is not in production; it is in development. The highest density in production is the Riesling memory which we announced some months ago, which has 2,000 bits of memory, and incidentally, was developed in your Boeblingen Laboratory in Germany.

I can't tell you today exactly what the next few years will bring, but I can say that technological change will become even more dramatic. Since 1958, we have gone through four significant technological changes in electronics, three of these in the past decade, two in the last 5 years. Progress is constantly speeding up.

The new technologies are also much more demanding of our manufacturing people. A typical manufacturing process for producing these chips has over 180 important steps. If each step is 99 percent perfect, the final yield at the end of the process will be only about 13 percent, obviously unacceptable.

As you can imagine, considerable engineering and manufacturing effort must be expended to create relatively loss-free manufacturing.

We use clean air in the manufacturing process. How clean? Out of a billion parts of air, we can only tolerate two parts of dust. To give you an idea what that two parts to a billion is, if you put a green hat on every living human being in the entire world, including China, Russia, Australia, and everywhere else, and you put seven people with red hats, that is two parts in a billion.

This creates a need for engineers and technicians with skills of the highest order. And since technology changes so rapidly, it also means these people must be constantly relearning new skills and techniques.

Now, from this brief illustration of a high technology industry in action, several broad characteristics can be noted.

One is the enormous rate of change. Generations of products are measured in a few brief years.

And not only do product lines change, but also competitive conditions. A company—or, indeed, a nation—which fails to keep apace of technological improvements and changes in marketing techniques, may be among the leaders one year and a trailer only a short while later.

Another important characteristic is the declining labor input in the product line. This doesn't mean that improved technology results in fewer jobs. What it does result in is more highly skilled jobs, as I shall illustrate in detail toward the conclusion of my remarks.

Parenthetically, I think it would be wrong to reach a conclusion that a high-technology industry such as computers is not labor intensive. If you compare the dollar revenue and the number of people of IBM to the dollar revenue and the number of people in General Motors, you will find that IBM is more labor intensive than General Motors by that yardstick.

It also means that labor costs on the production line are declining sharply as a percentage of our total costs. And it also means—most important in terms of the work of this committee—that hourly labor costs on the production line have less and less to do with our ability to compete either with other firms in this country or with foreign computer companies abroad.

Of course, no manufacturer wants to see his labor costs get out of line with his competitor's. But in a high-technology field, a differential in hourly wages is far less important than a company's ability to maintain a technological lead.

It would be a mistake for the Congress to focus too narrowly on the fact that wages are higher in the United States than in foreign countries, and to assume that the best way to protect American industry and American jobs is to try to compensate for the difference through tariffs or other protective barriers. For most industries, the question of whether America can compete effectively abroad ultimately is more dependent on our ability to maintain a technological edge, on our willingness to innovate in our products and our factories, and on our marketing skill and ingenuity than it is on hourly wage differentials, at least within certain limits.

Fortunately, innovation and risktaking are areas in which U.S. industry has traditionally excelled. While the computer industry may represent the current extreme in change and innovation, the simple fact is that no industry is—or should be—static. The facts of life in all industry require continual innovation to improve products and to lower costs.

The key for successful governmental policy is the creation of a climate which will encourage innovation with improvement in American industry, not sheltering it from competitive forces.

Specifically, in the field of legislation dealing with international commerce, Congress should avoid thinking in terms of days gone by, when handcrafts and high labor content were the general rule in American factories. Rather, we should think in terms of the 1970's and the 1980's, when our ability to compete will depend primarily on our technological innovation, our creative abilities, and our salesmanship.

Now, in the next few minutes, I'd like to illustrate the basic points which I have been making by telling you a little about IBM's operations as a multinational corporation—its economic impact abroad and in the United States—and some of the problems that we face at the present time and in the future.

In 1972, IBM showed gross income of $9.5 billion and net earnings of $1.3 billion, with a total of 262,000 people employed here and abroad.

IBM World Trade Corp., which handles IBM business outside the United States, reported gross income of $4.2 billion, net earnings of $687 million, and total employment of 115,000.

Outside the United States, IBM does business in 126 countries. It has nine research and development laboratories in eight foreign countries, and 19 manufacturing plants in 13 countries overseas. In addition, IBM provides education in new technology and management techniques at 78 overseas locations throughout the world.

IBM has been doing business on an international basis since its earliest days. Operations in Germany date back to 1910, in France to 1914, in Canada and Brazil to 1917 and in Japan to 1925.

IBM has pursued a general policy of manufacturing abroad the finished products sold abroad because that is, in virtually every instance, the only way to maintain its foreign markets. It is most important to understand that this policy has helped, not harmed, IBM's employment in the United States.

In my testimony I hope that is the most important point that I get across to this committee.

The reason for this is that operations abroad create demand for IBM products that cannot be satisfied by local manufacturing alone. This demand is met by a growing export business channeled through IBM's foreign subsidiaries. IBM's U.S. production destined for export has risen from $56 million in 1960 to $485 million in 1972. Imports have also increased during this same period. But, overall, IBM's net exports have increased from $52 million in 1960 to $305 million in 1972, an increase of nearly 500 percent.

We have stated on a number of previous occasions that one in eight of our manufacturing jobs in the United States is dependent on foreign exports. In fact, this has been a very conservative estimate—deliberately so, because this is a complex computation to make. However, translating the dollar value of our U.S. exports in 1972, we find that one out of every five jobs in IBM's U.S. plants was accounted for by business between the parent company and IBM world trade.

Senator Ribicoff. You say this is a complex computation. Do you mean your computers can't figure that out?

Mr. Jones. I tell you on things like that I think we go to a different type of machine.

Senator Ribicoff. A human machine?

Mr. Jones. Mr. Chairman, I hope it is no longer in doubt that multinational companies in general are large net exporters. The U.S. Tariff Commission study recently published by this committee found that multinational corporations in 1970 accounted for about 62 percent of all U.S. manufactured exports as compared with 34 percent of manufactured imports. The commission's analysis also indicates that "the U.S. industries most active in production abroad also are the heaviest contributors to U.S. exports"—a conclusion corroborated by other studies, such as those made by the U.S. Department of Commerce. I think it is also worth pointing out parenthetically that, when transportation equipment is excluded—to screen out the effects of the United States-Canada auto trade agreement—the Commission says: "A statistically significant association between foreign direct investment activity and aggregate imports disappears entirely."

The Tariff Commission study is less definitive with regard to trade-related employment since it points out that the conclusion depends on the assumptions used on what would have happened to the overseas markets of U.S. firms in the absence of their foreign investment. The Commission indicates that under the assmption that U.S. firms, without investing abroad, could have maintained the same share of the market that they enjoyed in 1960–61, the foreign investment of U.S. multinational companies has resulted in a net gain of 500,000 jobs in this country.

However, the Commission concedes that this estimate of job gains "is biased in the direction of excessive pessimism because it totally rejects—by assumption—the MNC's argument that a least a portion of the MNC's foreign direct investment has to go abroad to prevent foreigners from getting there first."

In IBM's case, there is absolutely no way in which we could have held onto our overseas markets and increased U.S. jobs these last dozen years, if we had refused to invest in foreign facilities.

If I may make an aside at this point, I would like to take you back 5 years ago when we had a really ridiculous situation in Germany where the Germans were trying to paint us to our German customers as being a U.S. company, and we were trying to market as a German company manufacturing, engineering, selling in Germany, and our major competitor was Siemens, and Siemens was selling a German product made by the RCA Co. in the United States but sold by Siemens as the German computer.

We were marketing a German comuputer made in Germany by Germans, sold in Germany by Germans, run by a German subsidiary with a German outside board of directors, and entire German management. I can assure you that if that situation had continued we would be very, very happy, because we did very well under that type of competition and Siemens gave that up and went into making a German product on their own.

In the first place, many governments abroad feel the need to keep local value-added in some kind of equilibrium with sales volume. If major countries had to import all IBM products now sold there, the drain on their payments balances in most instances would be prohibitive.

But even if this consideration did not exist, it is important to realize that the vast majority of our overseas jobs are not in manufacturing. Out of the total number of 115,000 IBM employees overseas today, only 27,600 are employed in manufacturing. This means that even if IBM were to manufacture all its products in the United States, it still would have to maintain abroad more than three-quarters of the present number of overseas employees. At least 80,000 people would be needed as local sales forces, systems engineers, programers, customer engineers, administrative and other support personnel to market and service IBM equipment—assuming that the current level of IBM's business outside the United States could be maintained.

As a practical matter, however, this level could not be maintained. The choice for us is not between exporting or manufacturing abroad, but between manufacturing abroad, or losing large portions of the world market.

I cannot prove it to you scientifically, but my associates and I are convinced that if IBM tried to serve the world market entirely from the United States, our business abroad would shrink to a small fraction of its present size.

Other countries' restrictions on imports are not the essential reason why this shrinkage would occur. The crux of the matter is that an attempt to make computer technology an American preserve would not succeed. By refusing to manufacture in western Europe, for example, we would be forcing foreign governments to subsidize and foster the development of their domestic computer manufacturers to an even greater extent than they now are doing, because those governments would feel widely dependent on foreign sources of supply of products, and of development of technology.

Imagine the economic and psychological effect on Western Europe of total dependence on imports of high technology goods. It would never occur. By manufacturing abroad, we hold a market we would otherwise lose.

In addition to export revenues, the fees, royalties, and earnings of IBM's wholly owned subsidiaries and branches overseas represent a steadily growing flow of money to the United States. In the 10-year period from 1963 to 1972, IBM's net contributions to the U.S. balance of payments was $4.44 billion.

IBM's contribution to U.S. and foreign tax revenues over the last 5 years amounted to $5.2 billion; over the last 10 years, to $7.7 billion. This represented taxation at the rate of approximately 50 percent of earnings, and of the total taxes paid over the past 10 years, about 60 percent went to the U.S. Government, and the remaining 40 percent to other governments.

In my judgment, these economic contributions were made possible by the main strength of my company—the speed with which we have been able to take technology out of the laboratory and turn it into marketable products. Neither IBM nor the United States has a monopoly on scientific knowledge in the computer field. We are convinced that it would be a tragic mistake for America to try to hoard its technological know-how on the false premise that major advances necessarily evolve from laboratories in this country. Rather, we know that our major strength lies in adapting technology, wherever it originates, quickly and effectively into finished products that are competitively priced and represent a market need.

Accordingly, one of the reasons for our success is our closely integrated multinational research and development effort. We have access to overseas technology and talent through our laboratories outside the United States, and we receive a steady flow of new ideas from all over the world.

That little chip with the memory on it, from Boeblingen in Germany, is an example.

An important part of the development work on the IBM computer systems—IBM System/360 and IBM System/370—was done in the company's overseas development laboratories.

Last August, IBM announced two new computer systems—the IBM System/370 Model 158, and Model 168. Development work on these new systems was the joint effort of several laboratories in the United States and abroad with close and instantaneous links among them.

IBM customers in the United States, as well as abroad, are the final beneficiaries of these joint efforts.

What is true for the computer industry is also true for most American high technology industries. All have to search for the best talent wherever it can be found to maintain their leadership. A great deal of know-how and inventiveness of foreigners actually goes into American products.

I recall from my own experience in the Navy, during World War II, that the first work on radar and antisubmarine warfare was done by the British. So was the earliest development of jet aircraft. The Wankel engine is another foreign import. The electron microscope and the video tape recorder are examples of important inventions resulting from international scientific cooperation. Magnetic ferrites, so crucial to my own industry, were the result of half a century of scientific effort in the United States, England, and Japan. Nor should we forget the crucial contributions of foreign scientists to the harnessing of nuclear energy, first for military and then for peaceful purposes, or to space exploration.

The economic progress made here, as well as broad, during the last 20 to 25 years would not have been possible without the relatively free transfer of technologies among Western nations.

IBM, for example, has cross-licensing agreements with dozens of European companies. It has similar agreements with some 15 Japanese companies. IBM's magnetic tape manufacturing facility in Boulder, Colo., was set up under a cross-licensing agreement with the Sony Corp. of Japan. It uses Sony patents, and drawn on the technical know-how of the Japanese company.

Aided by overseas research and development, American high technology companies continue to lead the world. While every American legislator is familiar with the fear in this country of competition from certain imports, you may not be aware of the fact that our principal trading partners feel under immense pressure from advanced technology companies headquartered in the United States.

Governments of major industrial countries are actively intervening to support their national competitors of U.S. computer manufacturers. That competition is growing both in strength and sophistication.

As European computer manufacturers, acting individually and jointly, develop their technological capabilities, they are getting substantial support from their governments.

From the beginning, national governments played a significant role in several major European computer companies. Some were created under government auspices, like France's CII, and Great Britain's ICL is a combination of a group of United Kingdom electronic firms that is 20-percent owned by the British Government.

In both cases, the government participates in the company's equity.

In Germany, the Government has allotted $832 million in subsidies during the 1971–1975 period for the domestic data processing effort.

In France, some $264 million will be spent by the Government in subsidies to the French computer industry between 1971 and 1975. In addition, the computer rental business of CII is being financed by a group of Government-controlled banks and the nation's social security fund.

In the United Kingdom, outright grants to ICL in 1973 amount to about $36 million. That has been going on for many years.

Besides giving direct support, governments also favor national computer manufacturers through "buy national" procurement practices.

At the same time, the EEC Commission for Industrial Affairs advocates preferences on the community level—replacing individual "buy national" practices with a "buy European" policy. Moreover, the EEC Commission wishes to apply ownership as the criterion—not the place of manufacture or incorporation of a company.

This policy, if implemented, would create a new formidable nontariff barrier against American computer manufacturers.

Several groups of European manufacturers have already been formed with EEC encouragement, the better to compete with American manufacturers. For example:

Siemens of Germany has entered into a product development and marketing agreement with CII of France. Phillips of The Netherlands, too, is likely to join this group. Under the agreement, former customers of Siemens in France have been turned over to CII, and former customers of CII in Germany have been turned over to Siemens.

Nixdorf and AEG-Telefunken, both of Germany, have joined together for computer systems development and production. They represent the two extremities of the product lines—Nixdorf producing small systems, and Telefunken, large systems.

European companies now often team up to bid against IBM, and other American companies. Last month, for example, Britain's ICL, backed by AEG-Telefunken of Germany, won a $6.2 million contract. CII of France and Siemens of Germany, working with British, German, Danish, and Dutch computer software producing companies, won a $4.6 million contract.

The consolidation of the computer industry in Europe is matched by developments in Japan.

I would like to tell you, in Japan the technology is growing as rapidly as in the United States, and I would like nobody here to think that the Japanese are copy cats; they are not.

The technology of the Japanese is very, very competitive in today's market, and their engineers are among the best in the world.

Direct Japanese Government subsidies supporting R. & D. include a $127 million grant paid over the 1972–74 period for the development of a new generation of computers. Government-guaranteed low-interest loans to computer companies approved for 1973 alone amount to $156.6 million.

If you add to that the fact that the Japanese Government gives low-interest loans to its computer companies, which amounted in 1973 to $156 million, you can get some idea of how competitive the computer market is in that country.

All these moves in Europe and Japan aim at reducing dependence on American equipment in the data processing field. Moreover, to be viable, the foreign companies will have to expand into the international marketplace.

And while IBM has a good deal of U.S. competition in our international markets, last year over 50 percent of competitive sales wins abroad were by non-U.S. manufacturers.

IBM neither wants nor expects any Government subsidy to compete against Government-subsidized foreign manufacturers. But we do need the opportunity to operate freely abroad. We need unhampered worldwide R. & D. to maintain our position in technology, and worldwide manufacturing to maintain our position in the market.

Should U.S. legislation handicap American computer manufacturers in their overseas operations, the technology gap that still favors the Americans would tend to close. Foreign manufacturers eyeing expanded markets—including the United States—would be helped along. The damage done to the U.S. economy would be considerable, perhaps irreversible.

In our view, the proper response is legislation that looks toward the elimination of trade barriers, including nontariff barriers that discriminate against U.S.-owned companies operating abroad. Far from treating U.S. foreign investment as a threat to U.S. employment, we must regard it as an important national resource that can provide U.S. exports, U.S. jobs, surpluses for the U.S. balance of payments, and technology essential for progress in the United States.

The idea that protectionism will save U.S. jobs is wrong. While some of the changes in employment in U.S. industries are related to shifts in the industries' international competitiveness, many others are not trade related. The U.S. unemployment rate continues at about 5 percent for reasons that have little to do with U.S. trade and investment policies, per se.

The principal reason is that inflation got out of hand, and that we were forced to slow the rate of growth of our economy in order to try to check that inflation. This problem must be treated by domestic economic policy.

Some of our unemployment, of course, has been related to the loss of U.S. international competitiveness. The dollar became overvalued in world markets, and we moved belatedly to correct the situation. The recent realinement of exchange rates should help correct that situation. The way to provide an adequate level of employment in the United States—to absorb the unemployed and provide jobs for new entrants into the labor force—is to keep the U.S. economy growing at a strong noninflationary pace. Economic self-sufficiency is not an answer to the problem.

We need to think dynamically of new industries, new products to meet new needs. The computer industry, after all, was merely an infant 20 years ago. It created hundreds of thousands of jobs and entirely new job categories. It generated exports and contributed to the health of the U.S. economy. American policy should be seeking that kind of dynamism rather than turning to the false hopes of protectionism.

Instead of retreating behind trade walls, U.S. policy should seek further reduction of tariff and nontariff barriers to permit an orderly economic expansion throughout the world.

Most urgently, we need a stable monetary environment. The chaotic international exchange-rate situation in recent years has created severe international economic problems. Disruptions and uncertainties in international currency and finance markets complicate orderly planning everywhere. The recurrent dollar crises strain the entire fabric of interrelationships among Western nations and ultimately can have serious effects on consumers and jobs in the United States as well as abroad.

Developments this past month have brought us to a moment of decision. It is vital that we make the right choices. I have indicated in general what I believe those choices ought to be; namely, that we should move in the direction of reducing barriers to trade among nations.

We recognize, of course, that sudden surges in imports of particular commodities adversely affecting domestic firms and workers may require the imposition of temporary safeguards such as higher tariffs. Where such safeguards are adopted, however, it is essential that they be employed for a limited period of time and that they expire automatically. Furthermore, those receiving the benefit of these safeguards should be required to make use of the time to adjust to changed competitive circumstances.

In this connection, I hope that Congress, in its search for meaningful ways to deal with economic dislocation caused by disruptive import competition, will closely examine the area of adjustment assistance. We simply must help workers impacted by trade, but we must do so in a sensible and businesslike manner that does not harm other workers. The bill introduced last year by the chairman of this subcommittee, Senator Ribicoff, is one of several approaches which have been suggested.

I support the adjustment assistance concept because of IBM's experience with its own internal "adjustment assistance" program. Let me briefly recount our experiences.

One byproduct of the swift pace of change in the computer industry, which I described earlier, is that it eliminates demand for certain kinds of skills while creating demand for new skills.

In the 1969–72 period, advances in manufacturing techniques eliminated a substantial number of jobs in our U.S. plants.

To maintain IBM's full employment practice, we shifted more than 12,000 people into new jobs outside the manufacturing area. Of these, about 7,000 were moved into jobs requiring comparable skills, but more than 5,000 employees received major retraining to permit their transfer from manufacturing into marketing, service, programing, and administrative jobs. Although we were not certain when we began that this retraining and transfer could be done, the program has been an outstanding success.

There are two reasons, I think, why this was so: First, we were able to project our personnel needs; and second, we knew precisely what skills would be required to fill those needs.

We could train the man specifically for that skill. Accordingly, the people who entered IBM's adjustment assistance program knew they had jobs waiting for them when the program was completed, and they knew that what they were learning was necessary knowledge.

Based on our experience, I believe that a meaningful adjustment assistance program to deal with the consequences of shifts in U.S. trade patterns is not only desirable; with Government, business, and labor support, I think it can be made to work. Business can play a valuable role, perhaps within the framework of an advisory council that would help design the program and monitor its operation.

For its part, IBM stands ready to participate in the effort—and by this I mean that we would be prepared to serve on an advisory council and to contribute the full-time help of one or more of our people who are experienced in identifying job requirements, in matching people to those jobs, and in creating retraining programs that actually work.

If I may summarize, I have essentially suggested a fourfold approach: Lowering of trade barriers, international monetary reform, adjustment assistance, and a proper mix of domestic fiscal and monetary policies. I believe this approach would protect the tremendous benefits America has enjoyed from our trade and investment policies, and would also extend help to those who have been hurt by them.

To try to extend that help with protectionist legislation would be like trying to cure a headache with the guillotine, and I choose the analogy on purpose. A large number of well-meaning people have been proposing resolutions to the unemployment problem in the country that in the long run will just not work.

It is manifestly to the benefit of all countries to safeguard the orderly functioning of economic activity throughout the world while pursuing legitimate national interests.

Recognizing that reality, we must bring the same kind of innovative, creative thinking to bear on our economic problems as we do to our technological ones. Thank you, Mr. Chairman.

Senator Ribicoff. Thank you very much, Mr. Jones, for your very significant testimony.

I don't think there is any company that better argues the case for the multinational than IBM because of its vast experience. We are faced with a series of very tough problems. In the next decade we are going to have to find jobs for 20 million more people. High technology is supposed to be America's bag, and it is a great export dollar earner. It is claimed that development of high technology will bring us new employment. Yet, I am very curious about what has happened between September 1969 and September 1972, which reflect a decline in employment in high-technology fields. Statistics that have been supplied by the Bureau of Labor Statistics indicate that in office and computing machines in 1969, the number of production employees was 143,800; in September 1972, 116,700. There was a loss of 31,800 employees or a decline of 22 percent. During this period, we had 2 million more people added to our labor market, and the new jobs were largely in service industries. That is only one part of the problem.

We are also faced with the fact that not all Americans are employed in the high-technology field. There is a loss in high-technology employment, and yet in the low-technology field that employs the bulk of American employees, there has been a constant attrition as we lose business to the rest of the world.

A man or woman who works for IBM receives high wages. The price you get for your product doesn't particularly concern you. If another country is paying 60 or 70 cents an hour, you can afford to pay $4 or $5 an hour because of what you can get for your product.

What does a company do when it is faced with a decline in employment in high-technology, along with a big decline in low-technology employment? Where will we find jobs for 20 million people in the next decade?

Mr. Jones. You have asked a very complex question. I would like to answer it in three pieces.

First, I would like to tell you that when I came down here to testify, I recognized before I came that the job before this committee is a tremendously difficult job, and you have my deepest sympathy because I think it is very difficult to find an overall perfect solution.

The second thing I would like to refer to in my answer is your comments about the period from 1969 to 1972, the high-technology employment.

I do not have all the statistics in front of me nor have I studied them. I have this sheet. But those are the years where the high-technology industry suffered along with the rest of the country in somewhat of an economic downturn.

If you look specifically at two industries, I can talk quite precisely. The first of those two industries, the aircraft industry and the story of Boeing in Seattle is well known to this committee. The problem was that in a recession, the airplanes were having a tremendously difficult time, and the market for new airplanes came to a grinding halt, and at the same time, the development of a competitor for the Concorde plane stopped, and, incidentally, I think that is a good decision, not a bad one, so I am not complaining about the decision. But that caused tremendous unemployment in the aircraft industry.

Now, the second industry I would like to focus on is the computer industry, my own, because in those 3 years, particularly in 1970 and 1971, as our customers faced declining profits because of galloping inflation, they turned to every place they could turn to cut costs, and the first thing they looked at was the data processing bill that they paid to the IBM's and the UNIVAC's and the Sperry Rands and the Honeywells and hundreds of other companies, and they did anything possible that they could to reduce that line. They use machines on three shifts because it is substantially cheaper to use machines on three shifts than it is on one shift, and the result in the IBM Co. was for the first time in our history, rental income went down in a year instead of going up in the United States.

I should hasten to add that rental income abroad went up because of migrating management and the good fortune of being overseas. But the facts are, rental income in the United States went down, and we in IBM were under two pressures.

One was to keep our profits up in line with the pressures from inflation, and the other was the pressure of meeting the challenge of new technology, which I tried to explain to the committee. And as a result, what we did was we cut down on headquarters people and took people out of Armonk and out of Harrison and out of White Plains and put them in the marketplace helping the salesmen, and we went from indirects to directs wherever possible, and we hired substantially fewer people in those two years, 1970 and 1971, than we did before. So if you look at our statistics, you would find our employment went down also.

But I am happy to tell you that I think that is a cycle problem, not a permanent problem, and the IBM Co. employment is going up in 1973, and the IBM employment overseas is going up. So that is a second point.

The last piece of my answer has to do with how do we find jobs for 20 million people, and I don't want to profess to be able to answer that, but I do know that when the automobile was invented, over a period of time it developed millions of jobs, and when the computer came around, over time it developed millions of jobs, and I believe that our ability to keep up with technology is going to develop similar industries and expand and raise the standard of living in this country, and what we have to do is get out there in front of our engineers and in front of private industry and get them looking at the ways and means of developing new companies, and I am not talking about just service companies, I am talking about new industries.

I also think that we have to be willing to look at other areas of the world, whether those areas are in Africa or Asia or India or Russia, or the Eastern bloc. I think you have to spend some time on them, but I for one and my company for another believe that there is tremendous potential in developing U.S. jobs by expanding markets overseas.

Senator Ribicoff. Now, you have stated a long-run objective. But we are forced today with both short-range and long-range problems. We have a situation where in 1972, Japan had a $19 billion trade surplus in manufacturing, Germany a $16 billion surplus, and the United States a $7 billion deficit.

We are also faced with an impending energy crisis. Predictions are that in the space of 5 years there will be a net outflow of some $15 billion to oil-producing countries. In this regard there is an item in today's Wall Street Journal, indicating the contribution of the Arab oil countries to the speculation on the dollar.

You also state that huge subsidies are being given by foreign governments to build up the computer industries. You also talk about buy-national program that are in effect in foreign countries. You also testified to the various trade preferences being granted. Here we are faced with a very complex situation where preferences, subsidies, and buy-national regulations are used by foreign countries, but when the United States does the same, somehow it becomes evil.

We have a problem of proper balance. These hearings certainly are preliminary to the trade bill that the President will be sending up to the Congress the next month or so. We will have to be concerned with this legislation, and we are trying to find some of the answers.

How do you begin taking care of the short-term situation in employment, trade, and in money that this committee is going to have to face within the next 6 months?

Mr. Jones. Senator Ribicoff, I have a great dread of sounding like a broken record at this committee hearing. I again tell you it is a very difficult assignment.

I would like to take the three pieces again that you talked about, starting with the energy crisis, a very real problem that could result in billions of dollars of negative balance of trade if we don't find a solution.

I have great interest in an oil company. I believe that if you could find some way to use a carrot to the oil industry to push them in the direction of finding ways to get gas out of shale, to finding ways to use nuclear blasts to get oil out of tar sand, find ways of getting oil out of coal, I think that the technological research that is being done by some oil companies has great possibility of helping to solve that issue. I believe that development in Alaska is essential, and I understand the dilemma that Congress faces with the ecology issues and all the rest, but, I believe that is essential and I believe that further some kind of bonus system to urge oil companies to increase their activities in the U.S. area, to find oil, is a step that ought to be taken.

When you talk about the subsidies that the foreign companies are giving companies in my industry overseas, I look at that as a nontariff trade barrier, and I believe that ultimately that path is dead wrong. It leads to helping keep going a mediocre operation too often. A government tends to keep a very weak computer company in business only in its national market and the result is higher prices, less performance for that customer in that country, than he would get if there was open competition. So I believe that those subsidies should be eliminated, and that if pressure can be put on overseas governments to eliminate all nontariff trade barriers, I think that would help.

Now, how do we combat a "buy-national"? Well, the U.S. Government, to a much less degree, has a "buy-national" practice, also, and I think the way we combat the "buy-national" is by being better than the national; and when you look at Japan, the IBM Japan Co.—and, incidentally, we are the only multinational corporation that has 8,000 IBMers that speak perfect Japanese.

I think those Japanese IBMers win in the government area by being better. NHK, which is the public broadcasting company has a complete IBM setup from stem to stern. The Japanese newspapers have brought a Federal system setup from Gaithersburg, right down here in Maryland, from our Federal Systems Division for setting type in the Japanese newspaper in Konshu.

Why did they buy us? Because they had to.

If you look at the airlines business all around the world, Air France, Alitalia, KLM, every single one of them has an airline reservation system. They are not all IBM. They are all United States and the reason is the United States is better at it than their national companies and, therefore, they are going to buy the best. No matter how much "buy-national" you put in, if the choice is to do it or do it badly I think you will win.

Senator Ribicoff. I have many more questions but my time has run out and after my colleagues have questioned you, I will have some more questions for you.

Senator Fannin.

Senator Fannin. Thank you, Mr. Chairman.

Mr. Jones, I commend you highly for an excellent coverage of this subject referred to by you as the crossroads in the evolution of American foreign economic policy and I think we say its relationship to multinational corporations that is going to be very valuable in analyzing the problems involved.

And the last subject you are talking about, developing our resources so computers could come up with an answer to our environmentalists, many of them I consider extremists, that say that we can't develop our petroleum resources without damaging the environment, then we might be able to take care of this shortage of fuel in this country. We do have the resources, according to the Geological Survey, resources that perhaps could last anywhere from 80 to 100 years. That is beyond the point but I am glad that you did cover that.

Mr. Jones, your four-point summary is quite interesting and comprehensive. In general, could you elaborate on your proposal for legislation that looks toward elimination of trade barriers?

I say that because we have had statements made that in your industry in Japan, there are barriers to the importation of computers and, of course, with an imbalance of trade of Japan of $4 billion, could you start with answering the question, do you have a barrier of getting your computer equipment in Japan?

Mr. JONES. Senator Fannin. I am going to answer that Japanese question. I would like to take the opportunity of speaking for 30 seconds on the environment.

Senator FANNIN. Thank you.

Mr. JONES. IBM is very interested in ecology. Tom Watson, Jr., has put in a rule in the IBM Co. that the minimum standard of IBM for water or air pollution in any plant in the United States is the most stringent rule that any of the 50 States have. So that the tougher the rule, whichever State has the toughest rule, that is the rule we abide by in all 50 States.

Secondly, both in the United States and abroad we are working in joint ventures with various people to try to hit the ecology problem.

For example, in Germany we are working with the German Government. We have put up $2 million in Germany to try to do work in Germany in the manufacturing area to find ways and means of keeping the air clean in German manufacturing areas. So we are very interested.

Shifting to Japan.

Senator FANNIN. Let me congratulate you for the position your company has taken, especially on a worldwide basis. Then on Japan, if you would like to comment.

Mr. JONES. I apologize for talking that way but I feel very strongly about it and the problem is I may not sound very humble when I talk that way, but we don't have solutions. But we sure as the devil like to work on the problem.

In Japan there are definitely very difficult nontariff trade barriers. We meet them in several ways. The first way we meet them is we manufacture in Japan. If we did not manufacture in Japan we would not have a Japanese market to do business with unless we wanted to license the Japanese company and kind of follow the tail of the dog working with the Japanese company. So the first way we do it is by manufacturing.

Even in manufacturing we have to get permission from the Japanese Government to manufacture a particular product. We are not free to manufacture anything. We have to go and get permission to tell them what it is we are going to manufacture.

Their duties have changed over the years but basically their duty structure is such that it is designed to help the Japanese computer manufacturer where he is strong and to help the international company where he is weak.

In the early days of the computer game we had very little difficulty getting large-scale computers into Japan but we had an impossible time getting our small computer into Japan. Their whole teamwork is between the Government and the industry. It is a very close knit team. They work at it very, very carefully day and night.

I believe that the way that international trade should work is by giving the same benefits to the other country that they are willing to give us, and I don't know enough about the rules of legislation to tell you whether that can be done or cannot be done. You certainly do know.

Senator FANNIN. You would recommend that we have legislation that would bring about a quid pro quo, as I understand?

Mr. JONES. That is correct. And the only exception I make to that is the developing countries, and there are various levels of developing countries.

Senator FANNIN. Mr. Jones, I understand that the Japanese had approximately $1.1 billion trade with Russia last year and about $1 billion with East Germany. Do you have any idea as to what amount was represented by computers?

Mr. JONES. Senator, I can tell you that the Japanese have sold a few Japanese computers in the Eastern bloc. They have one Japanese computer that I know of in Hawaii, and they are very diligently working in Australia and New Zealand and have made some sales in those two countries. As far as Western Europe and the major market in the United States, to my knowledge they have not penetrated those markets at all.

As far as Russia is concerned, I am sure the Japanese have as much difficulty selling computers to Russia as we do. We are very hopeful that that is a good big computer market but it has not developed to any size at this moment.

Senator FANNIN. I just know the figures that were given to us by the Russians, and I was wondering what your thoughts were in that regard.

Mr. Jones, in view of the increasing concern in Europe over the domination of certain industries by American multinationals, and of the concern in other parts of the world, don't you feel it is time for the major governments to get together and establish guidelines within which multinational firms could operate?

Mr. JONES. Senator Fannin, the answer to your question depends on the definition of "guidelines." By "guidelines," if you mean guidelines, the answer is "Yes." If you mean rules, I think a multinational company knows by now that they have to operate as a citizen in the country—in the host country—and that they have to obey the laws of that country, and I don't believe that we need another set of rules to regulate them. I think their good business judgment give guidelines that will do that.

Senator FANNIN. Why I asked that question, I am afraid there might be a move on behalf of some of the countries of the world to establish what we call a cobweb of rules and regulations that could strangle the operations of multinational corporations. That is what my concern is.

Mr. JONES. I didn't mean to interrupt. That is a very real concern. If they said rules of standards, where the standards had to be European standards designed against the U.S. high technology industry, it would be a nontariff barrier, and we should fight it with everything we have got.

Senator FANNIN. Well, in your submission to the Finance Committee which has been published in our compendium, you state that "in IBM's major markets abroad some degree of local manufacturing is an unwritten requirement for doing business." What you are saying is that the trade or local content requirements imposed by other governments make it impossible for IBM to export to these markets. Is that correct?

Mr. Jones. That is correct.

Senator Fannin. If that be the case, then aren't the problems associated with shifting plants abroad often related to protective trade policies of other countries? I think you have explained that earlier because of protective trade policies it has been necessary for you to go into those countries. You mentioned Japan and the relationship and that is why I am talking about the overall problem. And then can you describe the kind of protective policies that you have experienced in some of our major markets such as England, Germany, and France, other than Japan?

In other words, what has been your experience in some of the other countries that might compare or be different than what you have experienced in Japan?

Mr. Jones. Senator, I think I understand your question.

Looking first to Germany and France, the first barrier you have is the cost of transportation. The second barrier you have is the cost of duty. The third barrier you have is the paperwork involved in getting the product across the border, and that is a very sizable problem. It involves all kinds of special government requirements, translations, and the like. That is a problem.

The next problem has to do with government regulations that have to do with the electronic industry as a whole. The difference in current. But much more important than the difference in technical requirements is how the current is used. The difference in noise level laws.

In Germany, in particular, there is a very firm rule about the number of decibels your equipment can emit in order to meet the legal requirement of Germany, and all types of things such as that. Those are the types of things.

Senator Fannin. Thank you.

Mr. Jones. It is not impossible in any country to get in.

Senator Fannin. My time is up. Thank you very much.

Senator Ribicoff. Senator Mondale.

Senator Mondale. Thank you, Mr. Chairman.

May I say that I am very privileged to have an IBM plant in Minnesota and we are very proud of it and I am very pleased that we are one of the major computer States in the country. I think we have the highest ratio of employees in the computer industry and electronics industry of perhaps any State in the Union.

Could you tell us what the trend of jobs in IBM has been in the last 10 years. Has there been an overall upward trend in employment in IBM and what has been the ratio of United States to foreign jobs over the past 10 years?

If you don't have those figures with you, perhaps you could submit them to us for the record. Perhaps you could tell us in any event whether there has been a trend toward a greater ratio of jobs, or the reverse?

Mr. Jones. Senator Mondale, first let me say that we are delighted that we made the decision to move to Minnesota. I was at the dedication with Governor Freeman. I saw many go through that glass door. I don't think I will ever forget that.

Senator Mondale. He is still talking about the glass door.

Mr. Jones. Some of the publicity we get in Minnesota is very, very good. Once in awhile we get some negative publicity as you may have read.

Getting to jobs, the trend in the IBM Co. as a whole from the year 1962, which is 10 years ago, through 1969, was dramatically up. We were building new plants, we were hiring salesmen by the carload, we were getting into programing. There just weren't enough people to develop the computer industry that went on.

At the end of 1969, there was a slowing down of American industry and one of the first things that American industry did when that slowdown occurred was to look at that data processing expense and see if there were ways to cut. So in 1970 and 1971 we were faced with two phenomena. The first phenomenon was that our rentals, instead of going up, as was traditional, did not go up; they stayed level, and as a result of that phenomenon, if we were to continue to combat inflation and keep our profits level, it was necessary to find ways and means within our own company to cut back. The way we did it was to take indirects from headquarters and from elsewhere and convert them to directs—directs in the marketplace, directs in the plants, directs everywhere we could.

Senator Mondale. I understand. Maybe I didn't make myself clear.

Has the trend in IBM employment been in the direction of a greater ratio of foreign employees or greater ratio in overall employment of domestic employees?

Mr. Jones. The answer to that question, Senator Mondale, is that the trend has been exactly parallel. If you look at the IBM U.S. Co. and IBM World Trade Co. it is approximately parallel.

I would like the permission of the committee to submit the exact figures over the period of time to show you what that trend was.

Senator Ribicoff. If you could please, we would like your anticipated ratios of domestic and foreign for the next 5 or 10 years, if you have it. If you don't have it, we will understand.

Mr. Jones. Thank you very much.

[Mr. Jones subsequently supplied the following table:]

IBM DOMESTIC AND WORLD TRADE EMPLOYMENT SINCE 1962

Dec. 31 year	IBM domestic	IBM world trade	IBM total
1962	81,493	45,975	127,468
1963	87,173	50,439	137,612
1964	96,532	53,302	149,834
1965	111,087	61,358	172,445
1966	129,023	69,163	198,186
1967	144,206	77,660	221,866
1968	154,874	87,100	241,974
1969	159,967	98,695	258,662
1970	156,859	112,432	269,291
1971	149,022	116,471	265,493
1972	146,895	115,257	262,152

Senator Mondale. My second inquiry relates to foreign versus domestic taxes.

According to one of our charts from the staff here, IBM accrues approximately 50 percent of its profits from foreign sources. What ratio of your taxes are foreign as related to domestic? Would 50–50 be approximately it, or could you tell us?

Mr. JONES. Senator, the ratio for the past 10 years is 60 percent of our total tax bill in the last 10 years has gone to the U.S. Government and 40 percent of our total tax bill has gone overseas.

Now, I would like to hasten to add, if you will permit me, that the examination of the percentage of taxes that goes overseas can be misleading. For example, we send from the U.S. computer experts all over the world to solve particular problems and we bill the foreign subsidiaries for that man's time and that comes back to the parent company and goes into U.S. taxes.

Likewise, we collect from all our subsidiaries royalties on all of the machines that are used overseas, whether they are manufactured overseas or whether they are manufactured in this country, and those royalties act as an expense to the foreign subsidiary and, therefore, reduces foreign tax and they act as income to the IBM World Trade Corp., so they add to the U.S. tax.

Senator MONDALE. The argument is made, as you know, that if you have a plant location decision to make, and it may be say Connecticut versus Paris, and you look at the cost, one of the costs, of course, would be the tax implications of your decision. If you locate in France, you declare the taxes paid as credit against U.S. taxes, which as I understand it is worth more to you than a deduction.

Whereas if you locate in Connecticut, those State and local taxes are available to you as a deduction and not as a credit.

Secondly, with the income that you earn in France you only have to pay Federal income taxes in the year that it is repatriated to the United States, not on an annual basis—a judgment left to the discretion of the company.

Therefore in addition to the tariff barriers and the rest we are talking about here, we have a tax structure which encourages placement of plants under those circumstances in foreign areas with foreign employment rather than in the United States.

Would you respond to that?

Mr. JONES. I would be happy to.

First, I would like to tell you that we do not locate any manufacturing facility overseas as opposed to Minnesota or Connecticut, but our policy is to try to manufacture overseas most of the finished products that we are going to sell overseas. We do not manufacture overseas for the U.S. market—with one exception. The one exception is input devices which we manufacture in Canada, and some of those are shipped to the United States. The major reason for that is that Canada is a long way from our European factories and for us to supply the Canadian market, the most logical place to supply it from is the United States. Therefore, to keep a balance of payments in Canada within line—and last year it was approximately $40 million in favor of the United States—we shipped the Canadian computers from the United States instead of from Japan or Europe.

Secondly, we pick the locations for our overseas manufacturing plants based on three criteria. First, on the size of the market—so that you will find our plants with one or two exceptions in the Germanys, the Frances, United Kingdoms and—Japan.

Secondly, for balance of trade reasons. If we don't have some balance of trade in Germany, our German market is going to go. That is our opinion and I so testified.

And third. for cost of manufacturing. And in a high technology business, the cost of labor, the idea of moving to where labor is the cheapest is really ridiculous for us and we do not do that. We move to where labor is the best and where those other criteria are met.

I would like to address the next piece of your question which dealt with the foreign tax credit. In France we pay a higher tax to France than we do in the United States. So that the tax rate that we are talking about has no bearing on the fact that we manufacture in France or that we have a big force there. And in the case of Connecticut, the tax rate, I believe, is either 6 or 7 percent. Now, if we had a plant in Connecticut and they raised the tax to 52 percent, I suspect that we would find it very difficult to keep our plant profitable in Connecticut. I believe that the foreign tax that we paid in France is a tax that everybody who manufactures, whether they are French, German or American pay in France, and to ask any company to pay a 50 percent tax in France and then a 50 percent tax on the residue in the United States, or, in other words, a 75 to 80 percent tax overall, would end for all practical purposes our business overseas. It would just not be profitable to do, and if we do not manufacture overseas, as I tried to explain in my testimony, it is our opinion that our share of the overseas market which brought $800 million plus back to the United States in the year 1972, would be at least one-tenth of that, and certainly it would not be much more.

Lastly, you talk about whether or not there is any logic to tax deferrals. The fact that if we had a company working in Connecticut we are taxed on the whole earnings whether we declare them as dividends or not, whereas if we have a company operating in France, we only pay a tax when those earnings come back to the United States.

I would first like again to stress the point that we pay a 50-percent, plus or minus 1 percent, tax in France on our earnings in total to the French Government. That is that tax that we talked about before.

Second, I would like to point out that the contribution that our business makes in France is not just taxes, the contribution is those dividends that we were talking about a minute ago. Half of the dividends that IBM company pays are made possible by the fact that 54 percent of our profit comes from the IBM World Trade Corporation. Those dividends are taxed as they are distributed, to our stockholders and those stockholders are approximately 94 percent Americans.

Secondly, that French business brings back a big piece of that $840 million that I was talking about, and in my opinion that is a golden egg which will continue as long as the U.S. administration and the Congress makes the rules in such a way that we are competitive overseas and are not handicapped overseas.

The tax deferral idea, although it sounds attractive, is a penalty, it is not a bonus.

My whole testimony today is aimed at trying to convince this committee that the job of solving this problem is huge, but that it is going to be solved more by carrots than it is by sticks. I am referring to what Harry Levinson calls the jackass management method where you put a carrot on one side and a stick on the other and in the middle you see a jackass, and I am saying let's get that jackass moving with the carrot, not with sticks.

Senator MONDALE. Thank you.

Senator RIBICOFF. You yourself Mr. Jones, demonstrate that some of the best brains go to the big multinationals. As a witness you exemplify that.

Senator PACKWOOD. Would you clarify something for me in domestic tax policy. When you repatriate overseas profits are they counted as part of the normal income for that year against which you can offset expenses?

Mr. JONES. Senator, when we bring back income from overseas it goes into World Trade first, but then it is consolidated into the books of the parent company so that the total income is taxed, and that is what that $562 million U.S. tax bill represents in 1972.

Senator PACKWOOD. Run that by me again. I thought you said it wasn't taxed by the United States as long as it is taxed by the foreign country.

Mr. JONES. The World Trade Corporation is a wholly owned subsidiary.

Senator PACKWOOD. I understand that.

Mr. JONES. What we do is have income coming into World Trade from various sources. First we have income coming in from royalties. Secondly, in some countries we do not have a subsidiary, we operate on a branch office basis. To that country we bill directly. For example, in Argentina, because of the tax structure, we do not have a subsidiary.

Senator PACKWOOD. Let me give you an example. If you make $200 million profit in France in any given year you pay roughly 50 percent of it in taxes to the French Government. The other $100 million, is that taxed in the United States in that year?

Mr. JONES. No, it is not.

Senator PACKWOOD. If you bring it into the United States the next year, is it then taxed in the United States on $100 million profit or is that part of the earnings income of IBM against which they can offset normal business expenses?

Mr. JONES. No they cannot offset normal business expenses. It comes in the form of dividends and is taxed as dividends.

Senator PACKWOOD. It comes in as dividends from IBM World Trade to IBM?

Mr. JONES. It comes in as dividends. IBM France is a wholly owned subsidiary of IBM World Trade and its dividends represent income to the IBM World Trade Corp.

Senator PACKWOOD. It is taxed as dividends to IBM World Trade rather than under normal income. It is a dividend tax; is that right?

Mr. JONES. It is a dividend, but it is my understanding that that dividend represents income to IBM World Trade and it is taxed as income.

I would like to check that when I get back and write you a personal letter.

[The response of Mr. Jones follows:]

IBM WORLD TRADE CORP.,
New York, N.Y., March 12, 1973.

HON. ROBERT PACKWOOD,
U.S. Senate,
New Senate Office Building,
Washington, D.C.

DEAR SENATOR PACKWOOD: First, may I thank you for the courtesy you extended to me during my appearance before the International Trade Subcommittee.

I appreciated the opportunity to testify and considered it a privilege to have met you. I hope that I was able to be of some assistance to the Committee as it searches for solutions for a most complex problem.

During our discussions you asked the question related to the foreign tax credit which, to oversimply, was, "Why should we let you continue to do business in France when you pay no U.S. income tax on the profits you make in France?" You will recall that this question arose when we were testifying that if French income tax was higher than the United States income tax, the whole foreign tax credit applied.

At your request, I would like to summarize the benefits that we get from doing business in a country where the local tax is higher than the United States tax:

1. We make a very healthy contribution to the balance of payments problem.
2. Out of the net $305 million that we export from the United States some goes to France. The profit from those exports is taxed in the United States and obviously the export income helps our balance of payments as noted in No. 1.
3. The profits that we remit from France to the United States help us to pay dividends to U.S. stockholders which are taxed by the IRS.
4. France pays substantial royalties to the IBM Company. These royalties reduce the amount of foreign tax and increase the amount of U.S. tax.
5. We charge France with fees and service charges for special services rendered from the United States. These include the loan of American specialists to help a specific problem; they include special educational programs from the United States; they include unusual marketing assistance, etc. IBM USA makes a profit on all these fees and services. This profit is taxed as U.S. income.
6. Never to be forgotten—doing business in France creates jobs in the U.S. I testified on this subject specifically. I believe although the IBM case may be unusual, that this applies to almost all multinational companies.
7. Lastly, we gain technical know-how from France. To be quite specific—the best work being done in data communications comes from France. Some of the best components work and electronic switching also comes from France.

If this letter does not answer the question that we discussed, I do hope you will come back to me again.

Many thanks.

Sincerely,

G. E. Jones,
Office of the Chairman of the Board.

Senator Ribicoff. May I try to clarify? If you earned $100 million in France, and you paid $50 million in taxes and you brought the other $50 million back to the United States, you pay no tax on that amount because you have a tax credit?

Mr. Jones. That is correct.

Senator Ribicoff. So you don't pay double taxation?

Mr. Jones. No, sir.

Senator Ribicoff. So IBM, if I am correct, pays no tax on that $50 million. However, if you then pay out some of that in dividends to your stockholders, they would be paying their taxes on the dividends. But IBM does not pay the United States another tax on the $50 million you bring home; is that correct?

Mr. Jones. Senator, you are definitely correct. He asked the question in a rollover method.

Senator Ribicoff. I think that is the answer.

Senator Packwood. So it comes home in new taxes paid on it, given a 50–50 split on $100 million, or $200 million.

Mr. Jones. It comes home in no taxes paid on it, by the explanation of Senator Ribicoff. Any time the country's income tax is higher than the U.S. tax, we do not pay a U.S. income tax.

Senator Ribicoff. In other words, if you paid $20 million to the country because their rate was 20 percent, then, of course, with a U.S. rate in effect of 50 percent, you would pay taxes on $30 million?

Mr. Jones. That is correct.

Senator Ribicoff. If a tax is equivalent or higher, there would be no tax on it in the United States?

Mr. Jones. That is correct.

Senator Packwood. Let me go through some of the figures in your statement. You talk about the 1972 gross income being $9.5 billion, and net earnings of $1.3 billion. By use of the term "net earnings," are you talking about before taxes or after?

Mr. Jones. I am talking about after taxes.

Senator Packwood. So you have net earnings in 1972 of $1.3 billion of which $687 million are outside the United States and I assume $613 million within the United States to get your $1.3 billion?

Mr. Jones. Yes, sir.

Senator Packwood. Then you indicate, in the past 5 years that IBM has paid U.S. and foreign taxes of $5.2 billion, and I am averaging that to be about $1 billion a year over 5 years; is that correct?

Mr. Jones. I don't understand.

Senator Packwood. It would be $1 billion.

Mr. Jones. Yes, sir.

Senator Packwood. All right. Of that $1 billion, you indicate that 60 percent of your total taxes of the $5.2 billion went to the United States—roughly $3.1 bill was paid in the United States. Are my figures right?

Mr. Jones. Your figures are right for 10 years, but they are not right for 5 years. In 10 years, I say that 60 percent went to the U.S. Government, and the remaining 40 percent to other governments.

If you look at the 5-year figure, the 5-year figure is closer to 55 percent to the United States, and 45 percent to the foreign governments. It cycles because in some years the tax rate, the tax credits are higher, and in other years the tax credits are lower, depending on the dividend structure.

Senator Packwood. Let me change the percentage and I will get back to this when my round of questioning comes again.

You indicated in your statement that there is a growing tendency in the European Common Market toward a policy of buy European, and the criteria may be ownership rather than place of manufacture or corporation. What is that going to do to IBM world trade if they adopt that standard?

Mr. Jones. That would seriously affect the IBM company because the ownership of IBM subsidiaries is all United States.

Senator Packwood. I understand that.

Mr. Jones. That would be a serious nontariff trade barrier.

Senator Packwood. It not only blows you out of the water in Europe, but all of the exports from the United States that go to the IBM subsidiaries in Europe are going to be gone.

Mr. Jones. That is not true, Senator, because the Common Market is referring to government buying, and the government buying is a substantial piece of the computer market, but it is not the entire piece of the computer market, except in countries like Russia.

Senator Packwood. So your only problem will be a continuing one of whatever tariff or nontariff discrimination they have. But you won't be faced with a buy European policy with private companies.

Mr. Jones. You stated it correctly, sir. It still is a very serious nontariff trade barrier if it comes to pass.

The Treaty of Rome specifically says that the Common Market will not do that, so in order to do that they have to rewrite the Treaty of Rome, which I hope you people will not let them do.

Senator PACKWOOD. Give me your general comments in terms of the antitrust philosophy in the United States as opposed to that in Europe or Japan, how it effects your efforts of competition?

Mr. JONES. Senator Packwood, I am very sensitive to the antitrust situation and I would prefer not to comment on IBM's position either here or abroad. I would say that in the European arena, particularly in the Common Market, the Common Market Commissioners don't quite understand the antitrust laws of the United States and how they operate quite the same way that you do, and anytime a multinational company in the United States is accused of anything in the antitrust area, the Common Market Commissioners' reaction appears to be one, well, if they are accusing they are guilty, and if they are guilty they are bad, and if they are bad we ought to get rid of them. I am overstating the position but in that sense the view of the U.S. antitrust picture is clouded at best and it is not a plus, it is a minus.

Does that answer your question?

Senator PACKWOOD. I believe so.

I have no other questions right now, Mr. Chairman.

Senator RIBICOFF. Senator Roth?

Senator ROTH. I would like to also thank you for coming and giving your very helpful testimony. I was concerned at the beginning where you were discussing technological developments at IBM. I can see where you might come up with a possible substitute for Senators in your computer industry. Maybe that would be an improvement, I don't know.

I was very much interested that you spoke out in favor of continuing some kind of adjustment assistance program in your prepared testimony and you mentioned that several approaches have been suggested.

I wonder if you could expand as to your own thoughts as to how we might address this problem legislatively?

Mr. JONES. Senator, it is very difficult problem to cure, as I am sure you know. The point that I was trying to express is that in an industry which is being seriously affected by international competition to the point where it is obvious that that industry has to find some other solution than continuing to make an obsolete product, the key to the adjustment assistance in my opinion, is to find some area of training where after the employee has finished that training there is a need for talent that he has learned. And the key is not to just tell people we will help train them, but to get that labor force trained in an area where jobs are going to be available, because only if the employee thinks that there really is a job at the end of the training is he really going to do the training. That is our experience.

Senator ROTH. Would you consider it feasible for multinational companies or companies involved in trade to help finance the program as a price of doing international trade?

Mr. JONES. Senator, I don't understand your suggestion in any depth. It sounds to me again like a penalty to a company that is doing business on a multinational basis and in my personal and business opinion, the multinational companies are the greatest industrial strength of this Nation, and to say that you want to penalize them, I don't mean you personally, anybody who says they should be penalized for those golden eggs, I think is wrong. So my answer is no.

Senator ROTH. I might say I get that general reaction about any kind of tax or tax increase.

We have heard that multinationals have millions in short liquid capital which can be transferred among currencies when there are disturbances in the monetary markets. I wonder if your company did have to move any of its capital from dollars to other currencies in the last month? Under what circumstances do you move capital? The multinational companies have been criticized as being a factor in making it necessary to devalue. I wonder if you would care to comment?

Mr. JONES. I would like to comment very much. First off, I would like to tell you that I anticipated this question before I came down, because it is a very sensitive area and Tom Watson and Frank Cary and I have been checking this over and over again over the past 12 months, and I would first like to assure the committee that we have never converted dollars into foreign currencies. Our business is to convert foreign currencies into dollars.

Now, second, I would like to say when the dollar devalued we did not take any action to try to make money on the devaluation in any way, shape or form. We do not speculate in currencies.

Now, in the next breath, I have to tell you that when you do business in countries like certain countries in Latin America, where a currency devalues 15, 17, 20 percent a year, year after year after year, if you want to do business in that country, and we do, you don't remain a creditor for a very long period of time.

Senator ROTH. Is there any possibility management could be criticized or even been involved in litigation from the standpoint that if you didn't protect your currency holdings overseas, you were not properly protecting the assets of the company? I am thinking from the standpoint of the stockholder.

Mr. JONES. I don't think so. I think that we would be making a huge mistake if we tried to protect the assets of the stockholders by going into a business other than our business, and our business is not speculating in foreign currencies.

Senator ROTH. I didn't mean from the standpoint of speculation but from the standpoint of if there was devaluation and you had substantial assets overseas. Some industry argues currency transfers are a protective device, not speculation.

Mr. JONES. The answer to your question in my opinion, no; I do not think that is.

I would very much like to give these little exhibits of our technology to Senator Roth, if he didn't get one. Did you get one?

Senator ROTH. Yes; I did.

Going back to your proposal that perhaps tariffs would have to be temporarily and selectively raised help domestic companies adversely by excessive increases of imports, I would like to ask you this question. Maybe it is out of your expertise. But do you think a temporary tariff increase, for example, would help, say, the textile industry or the shoe industry or the others that have been badly affected? Are they going to be any better off in 2, 3, or 4 years or are we delaying a difficult decision?

Mr. Jones. Senator, I guess this, I hope this is the first time that I have ducked a question. I honestly don't know the answer.

Senator Roth. I want to thank you for your patience. Thank you.

Senator Ribicoff. One of the basic problems we have, and I imagine Mr. Meany will address himself to it when he comes here on Tuesday, is found in your testimony. The 1969–72 period of advances in manufacturing techniques eliminated a substantial number of jobs in U.S. plants. To maintain IBM's full employment practice you shifted more than 12,000 people to new jobs outside the mnaufacturing area. Then you describe exactly what you did.

What does IBM do in the following situation where it decides for sound business reasons to move a plant from one State in the United States to another a long distance away. I don't mean New York to Connecticut or Connecticut to Massachusetts, but cross country. What do you do with the employees?

Mr. Jones. Senator, we are a most fortunate company and most fortunate industry.

What we have done is that we offer those employees jobs in the new plant and we offer those employees and their family all of the expenses of moving their luggage, their furniture, their this, and their that. We have their house appraised and we offer them the option of selling the house themselves or taking the appraisal of three banks or a real estate agent and two banks, to get an average appraisal, and we assist them in finding a home at the other end of the line.

Senator Ribicoff. Do you do that with the man that sweeps the floor as well as your top executives?

Mr. Jones. Senator, we do that with everyone, regardless of whether they are highly skilled or lowly skilled, and I have to repeat to you that I said before, we are a very fortunate company that can do this. In all honesty we have moved large numbers of people, but we have never closed a plant, to my knowledge. We have never been in the position of moving out of one State into another yet.

Senator Ribicoff. Let me give you a specific example that concerns me, the Royal Typewriter Co. I suppose you might have put it out of business because of your IBM typewriters, but be that as it may. After this company had been located in Hartford, Conn. for 60 years, it was acquired by Litton. The average hourly wage of a typewriter employee in Hartford, Conn., was $3.60 an hour.

Litton Industries manufactures typewriters in its plant in Hull. England where its average hourly rate is $1.20 an hour. Litton told me that 55 percent of the cost of making a typewriter is attributable directly to labor. Therefore, they decided they couldn't afford to manufacture typewriters for the world market having to pay $3.60 an hour. They chose to make those same typewriters in Hull, England where they only pay $1.20 an hour. So the plant is to be closed down and 1,700 people will lose their jobs.

I don't want any invidious comparisons with Litton, but if IBM was faced with a comparable situation, what would IBM do with those 1,700 people?

Mr. Jones. Senator, IBM would take those 1,700 employees, if that situation had to be faced, and we would move them to other plants not making typewriters but making some other IBM product.

I would like to comment on the typewriter because a billion of that $9 billion revenue comes from the Office Products Division which is our typewriter division.

We manufacture typewriters for the United States in Lexington, Ky., and we manufacture typewriters for the European market in Amsterdam, Holland, and the typewriter cost is approximately, well, it is lower in Lexington, Ky., than it is in Holland. It is approximately 10 to 12 percent less here than it is over there.

Senator RIBICOFF. Why, Mr. Jones?

Mr. JONES. It's lower over here, sir, for two reasons:

One, the productivity of Kentucky workers is high, and, secondly, the technological ingenuity of that plant has worked with the company called Gardner Denver in making very complex tooling equipment that keeps the cost of that typewriter in line with any other location around the world.

Now, next, our typewriter costs more money to buy, the purchase price is higher, and the way we try to make sales is to make the typewriter functionally better.

For example, today we are announcing a very simple gadget on the typewriter. When you press a "W" instead of "M"—all you have to do after today is press an error correction, and what the error correction does, is the second ribbon on the typewriter that goes down when you press the error correction on the space before where you are, and it just literally picks the ink off by means of a chemical typo and puts the paper back where it was before; a simple little gadget priced at $60. I think that will keep us highly competitive, highly competitive with the Olympia, Triumph machines that are made in Germany, which basically sell for $100 less than ours.

Again, technology, in my opinion, is the answer to your question.

Senator RIBICOFF. What is the average hourly wage in Lexington, Ky., as against Amsterdam, Holland?

Mr. JONES. I am going to give you, sir—I would like to submit that precisely—but approximately the answer to your question is that if the Lexington, Ky., wages is at $100, the Holland wage will be at $70.

(Mr. Jones subsequently submitted the following:)

COMPARABLE WAGE AND BENEFIT MEDIANS FOR EMPLOYEES IN THE 5 MOST POPULOUS JOB CLASSIFICATIONS IN LEXINGTON AND AMSTERDAM

Job title	Lexington		Amsterdam	
	Wages	Wages plus benefits	Wages	Wages plus benefits
1. Assembler	$100	$100	$68	$76
2. Senior assembler	100	100	65	72
3. Assembler specialist	100	100	64	70
4. Senior machine repairman	100	100	66	72
5. Tool and model-maker	100	100	63	69

Note.—The figures above represent compensation that an individual would receive for the job title indicated. However, the real purchasing power of an individual in each country would be the number of hours he must work to buy food, shelter, clothing, etc. The above data does not show the purchasing power of an employee in each country.

Senator RIBICOFF. You see this is where we get down to a major problem that I have discussed with many people like yourself in a multinational firm.

What it comes down to is the social responsibility of a business to its community and to its members. When I say social responsibility, I see what your own company is doing from your statements. You obviously assume that IBM has a social responsibility to both the community and your employees.

But when Litton Industries decided to move, with practically no notice to Hull, England, it was a blow to the Hartford community and, of course, a blow to the 1,700 employees, many of them between 50 and 55 years of age.

It isn't a situation where a 21- or 22-year-old man can get up and move to California or Arizona. A 50-year old has his family, his ties, loss of pension rights, and loss of other seniority benefits.

What should be the social responsibility of industry as a whole? Do you think that IBM's experience or policy is unique or should this be a standard that other firms should adhere to?

Mr. Jones. Senator, I think that the profit system is the system that will develop solutions to the social field that you are referring to, and I feel that all companies are not able to make the same level of profit in a low-risk business as companies who are in a high-risk business. So I would hesitate to suggest that you put penalties involved in the situation in Litton that you described.

What I would like to say is that where a company through no fault of its own is forced to move a plant from one location to another, that adjustment assistance be brought into the picture to try to help retrain the people in that plant so that they could be productive in some other type of industry.

Senator Ribicoff. Now, I am sure the answer Mr. Meany would give on Tuesday to that same question, sitting in your chair, would be something like this: Adjustment assistance as it is applied today is for all practical purposes the same as burial insurance.

He would probably add that the concept of adjustment assistance only makes sense in a full-employment economy. But if you have 5 million people unemployed with a 5-percent unemployment rate, adjustment assistance as it is on the books today isn't going to work.

How would you answer Mr. Meany if he gave that answer?

Mr. Jones. Senator, I am not an expert in the labor field, but I am positive, again I sound too positive, which I don't mean to.

I feel the solution is in keeping the productivity of the American worker up, not in looking for labor intensive industry that keeps the productivity of the American worker down.

And I believe the productivity is the key to a healthy economy, and that if you use training to get the productivity of that worker up, that the plant in Hartford can compete with the plant in England.

In fact, if you look at the GNP growth rate in Britain, and it's the lowest of any major Western power, it runs 2 percent, something like that, and so it is very difficult for me to think that the productivity, that if we get productivity up that we can't outmanufacture England.

Senator Ribicoff. Your company is today brilliantly managed, adequately financed and technologically superior to anyone else in its field. Looking ahead to the future, what happens to the level of European and Japanese technological skill if their Governments continue their subsidies and their "buy national" programs and grants for research and development? With these factors added on, would IBM be able to continue to compete with the European community countries and Japan in world markets?

Mr. Jones. Senator, again I am in a position where I sound as though I am bragging. I think the success of a company depends on its people, and as long as the IBM Co. is able to attract the IBM Japanese people from the University of Tokyo or Kyo and other top Japanese universities that we have in the past, I think we will stay competitive in Japan.

The same in Germany and the same in France. And we are very fortunate because in the computer industry we are able to attract top engineers and top research scientists, and that atmosphere is very helpful in keeping a world technological leadership.

Senator Ribicoff. With regard to the Soviet Union, you say the Soviet Union is slow in adopting to computers, and that they are behind us in the application of computers. I think you made a statement to that effect.

Mr. Jones. You want me to comment?

Senator Ribicoff. Yes, sir.

Mr. Jones. Senator, the Russians, in my opinion, are very, very good at making special-purpose computers, a computer for the military, a computer for the space program, one-of-a-kind special-purpose computer.

I believe where the Russian failure is, is in being able to take a technical development and convert that on a mass production basis to a plant and to a marketplace.

The whole concept of how to manage technology is in consumer society. They really don't even think the same way we do.

In computers, for example, when Tom Watson and I were in Moscow and we wanted to talk about the computer industry, we found one group of people involved in the making of the computer, another group of people are involved in telling the companies in Russia which computer they were going to be allowed to have, a third group were involved in programing development at the Science and Industry Institute.

There is no central place where the marketplace and the development come together where the customer is considered at the development level. And so that the whole process of getting technology from a research position down to where it is used, it is much better here than anywhere else in the world. That is our secret weapon; it is fabulous.

Senator Ribicoff. The computer, of course, has a definite role in military applications of all kinds. How do you determine when you do or do not sell a computer to a country that potentially could be a military competitor or a military enemy of the United States? How is that decision made?

Mr. Jones. Senator, sitting behind me is John Gaughan, who works here in Washington for me. Our policy is to abide by the practices and desires of the administration; and before we sell any computer to Russia, regardless of size, John Gaughan is responsible for reviewing the proposal—this is before it is even submitted—with the Defense Department, with State, and with Commerce, and when we make that proposal in Russia, we tell the customer that it is subject to the licensing approval of the U.S. Government, and before we ship that computer from a French plant, a German plant, or U.S. plant, any plant, we come down here and we have the interagency committee of those three groups look at the order, look at the specs of the machine, and decide whether or not it is strategic or not strategic.

Senator Ribicoff. So, in other words, the worldwide complex of IBM, before anything would go to Soviet Union, would clear that through Washington from any country?

Mr. Jones. From any country in Eastern Europe.

Senator Ribicoff. No, no, any country in Eastern Europe, any plant that you have?

Mr. Jones. Absolutely any country.

Senator Fannin. Well, thank you, Mr. Chairman. This has been extremely helpful. But over several days of hearings, we have gone around and around on this tax question regarding multinational corporations. You have elaborated on it today, but I would like to try to bring this question in proper perspective and give you my understanding, and then ask for your comments.

My understanding is that through a series of treaties negotiated with our major trading partners, we have constructed a reciprocal taxing system. Under this system, the primary jurisdiction respecting taxation of income is a country of source; is that right?

Mr. Jones. Yes, sir.

Senator Fannin. Now, to make this system work, we enacted a tax credit. The broad effect of the foreign tax credit is to limit overall income taxes, foreign and domestic, to whichever of the two rates is the higher.

Thus, when the foreign tax rate is lower than the U.S. rate, the U.S. taxpayer pays full foreign tax on his foreign source income, plus the difference between the foreign and the U.S. rates in U.S. tax.

When the foreign rate equals or exceeds the U.S. rate, the U.S. taxpayer pays only foreign tax on his foreign income. Is that correct?

Mr. Jones. Yes, sir.

Senator Fannin. Now, wouldn't we seriously damage international trade if we changed this system?

Mr. Jones. Yes, sir. You would seriously damage international trade if you changed that system.

I would refer you to the fact that many countries, France is an example, don't tax foreign earnings coming back to France at all.

Senator Fannin. They have a very complicated tax system, including the value added tax and things of that nature, but we are talking about the overall tax, and I was specifically talking about what we have discussed concerning multinational corporations.

One other matter, and I don't know whether you want to get into the antitrust subject, but I last year had legislation that would provide for the same treatment by a foreign corporation that we have for our own domestic corporations, in applying the antidumping laws. Are you familiar with the differential there?

Would it be beneficial to your corporation and other corporations, competitively, if we applied the same antitrust laws in this respect to the foreign corporations?

Mr. Jones. Senator.

Senator Fannin. In the United States, I understand that we can't apply our laws to their countries, but we give then a special privilege as far as antidumping laws are concerned.

Mr. Jones. Senator, I think that the antidumping laws are very, very important and should be continued and strengthened. As far as the antitrust question that you asked, I would like to answer that question as an individual. I do not believe that you should have laws in one country which only apply to one set of companies. I think laws in a country should apply equally whether the company is a German company registered in the United States, or whether it is an American company registered in the United States, or what.

Senator Fannin. I felt that way about it and was able to get the legislation through the Senate. But we did not get it adopted because of the lack of support for the legislation. It failed in the House because of lack of support.

Mr. Jones. Often the minority is right.

Senator Fannin. Thank you very much.

Senator Ribicoff. Senator Packwood.

Senator Packwood. Mr. Jones, I am very much impressed by the operation and potential of multinational corporations. My questions shouldn't be viewed as evidence of disapproval.

Almost all of the taxes that you pay in the United States are paid upon profits made in the United States, and relatively none of them on profits made overseas and remitted here; is that right?

Mr. Jones. No, sir. I would like to clarify. We pay income tax on royalties from overseas. That is a sizable amount of money, more than $200 million.

Senator Packwood. Taxes or royalties, $200 million?

Mr. Jones. The royalty. I do not mean the tax. If you recall, we talked about the amount of money that comes back from overseas and is converted into U.S. dollars.

That is, dividends, fees, royalties, and exports; and that royalty piece is sizable, and that is taxed in the United States as U.S. income.

Senator Packwood. That is a direct profit here and not a remission from overseas?

Mr. Jones. It is taxed direct here.

Senator Packwood. But I come back to my question——

Mr. Jones. It is an expense overseas. It reduces the foreign tax and increases the U.S. tax.

Senator Packwood. The overwhelming bulk of the taxes you pay here are based upon your domestic profits?

Mr. Jones. That's right.

Senator Packwood. The reason I find it critical, if we ever get to the stage where we can't justify multinational corporations on the basis of how much they increase our exports, then we are going to have to find a different basis for justification. Frankly there isn't much to justify them in the way of taxes they pay here on overseas operations?

Mr. Jones. I would like to enlarge on that answer, sir, because the busines that we have overseas first generates a tremendous amount of balance-of-payments money.

Second, it generates some tax.

Third, it generates a very sizable sum of money of royalties and fees.

Fourth, it generates the profit which pays our stockholders 54 percent of their dividends, which is taxed by the U.S. Government.

Fifth, it generates jobs, lots and lots of jobs, in the United States, not only in manufacturing, in application, development, programing, engineering, and the like.

So I really feel that the multinational company that does business abroad like the IBM's and the Esso and all the rest of that, Caterpillar Tractor and duPont, and all the rest, does an awful lot more than just that tax that Mr. Hartke talks about.

Senator PACKWOOD. I have no other questions.

Thank you very much.

Senator RIBICOFF. Senator Roth.

Senator ROTH. I have just one further question.

It is refreshing to hear you speak about the productivity of American workers compared with foreign. Many people seem to think that the problem of productivity is primary as a factor, both in our trade and inflation here at home.

I wonder if you have any comments to make on what can be done to improve the productivity picture in this country. Is there something that can be handled in any measure through further legislation, in your opinion?

Mr. JONES. Senator Roth, I must say as chairman of IBM World Trade Corporation—the foreign end of our business—that I don't want you to think that we are not proud of the productivity of our French workers and our Italian workers, and so forth.

What I am saying is that American ingenuity ought to be able to keep productivity in the United States going up, and that we should be competitive.

Now, having said that, I believe that there is a high relationship between technological advance and productivity, and I believe that whether you are looking at computers, or airplanes, or service industries, the ingenuity and creativity of finding tools to assist the worker to increase productivity is substantially more important than the difference in wage rates. I tried to use the typewriter as an example where, through the use of modern tools and the use of a vendor who was very ingenious in making those tools, we can keep the typewriter cost very competitive.

Senator PACKWOOD. Do you think that can apply to what is called labor intensive industry as well?

Mr. JONES. If you made labor an intensive computer, it would be called an abacus, and I think the Chinese would eat us up, and I think that is what trust is in almost every other industry.

Senator PACKWOOD. Thank you.

Senator RIBICOFF. Mr. Jones, we are very grateful for your having come here. Your testimony has been very valuable, and I hope that in the future as we get into various facets of the trade bill, we might have the benefit of your testimony on specific aspects of the trade bill.

Mr. JONES. Senator, I appreciate very much your patience with me and I have thoroughly enjoyed the morning. I would be delighted to help in any way I can.

Senator RIBICOFF. Mr. Woodcock was unable to appear today due to illness. We will reproduce his statement at this point in the record.

STATEMENT OF LEONARD WOODCOCK, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

Mr. WOODCOCK. I welcome the opportunity to testify in these hearings and I should like to congratulate the subcommittee for its recognition of the importance and seriousness of the problems created for the United States and the world by the phenomenal growth and spread of multinational corporations (MNC's).

I do not think that the subcommittee's outline for these hearings overstates the situation in saying that the MNC's "may well be the most significant economic phenomenon of the 20th century."

I am not here to characterize them as good or evil. The simple facts are: (1) The MNC's command economic power that is already awesome and still increasing. (2) As of now, there are no means in being—national or international—which the peoples of this country and others can bring to bear to assure that the power of the MNC's is used in the public interest where that interest is in conflict with the corporate goal of profit maximization.

Here, in the United States, as well as in other countries, it has been recognized—without any prior necessity to decide whether corporations are good or evil—that the private power they wield must be regulated in the public interest. A very substantial part of all the legislation—Federal, State, and local—enacted throughout our history has been directed toward curbing abuses of corporate power. There are laws almost without number to prevent corporate power from being exercised in ways that are harmful, among others, to workers, consumers, other businesses, the environment, the national security, the national economy, and even government itself.

It does not matter whether a majority or a minority of corporations are likely to or inclined to perpetrate the damage that the laws seek to prevent. It is not even necessary to prove that harm has actually been done. Action is called for so long as the existence of great power creates a potential for, or a threat of, harm if that power should be permitted to be exercised without restraint. A wise society locks its barn doors before its horses are stolen.

As Prof. Raymond Vernon has written, in a book appropriately entitled "Sovereignty at Bay":

> I personally am mistrustful of any large concentration of economic power, on the grounds that Lord Acton so aptly summarized: Power corrupts. Men with power have an extraordinary capacity to convince themselves that what they want to do happens to coincide with what society needs done for its good. This comfortable illusion is shared as much by strong leaders of enterprise as by strong leaders of government.

In the case of the MNC's, as will be indicated below, the harm is more than potential. Damage has already been done to the peoples of the United States and other countries, and more harm is openly threatened and sometimes done whenever MNC's publicly declare that they will withhold or relocate their investments unless governments accede to their demands for concessions or unless their workers in one country or another surrender to management dictates.

The rise of the MNC's, and the enormous power at their disposal, calls for new forms of regulatory legislation—national and international—to meet new problems not contemplated by existing legislation, most of which assumes, implicitly at least, that the activities of corporations are confined within national boundaries.

In calling for national and international regulation, we, in the labor movement, are not unconscious of, or trying to run out on our own responsibilities. A great deal of effort is being devoted by unions—nationally and internationally—to protect workers in their collective-bargaining relationships with the MNC's. The UAW, together with a number of other U.S.-Canadian international unions, is active in the International Metalworkers' Federation—an organization that includes unions from some 60 countries representing 11 million workers—which has devoted a major part of its efforts in recent years to grappling with problems created by the MNC's. Among other things, it has organized what are called worldwide corporation council's in the automotive industry. Such councils bring together representatives of the workers of a single corporation—or, in a few cases, of a group of related corporations—from all the countries in which it operates. The purpose is to coordinate the activities of all the national groups of workers involved in order to frustrate the efforts of the MNCs to dominate them through divide-and-rule tactics.

We, in the labor movement, cannot help but be conscious, however, of the fact that collective bargaining, by itself, is limited in its scope, that unions alone cannot mobilize sufficient countervailing power to offset that of the MNC's, and that workers face dangers from the MNC's not only as employees but also in their roles as citizens and consumers. Their interests in those latter roles require them to join with others similarly affected in calling upon governments to take the steps necessary to protect world society in general against abuses, actual or potential, by the MNC's.

There is a positive side as well to the reasons that cause us to ask for governmental and intergovernmental action. The outline of these hearings notes the arguments made by the proponents of the MNC's concerning their alleged beneficial impact on world society. Whether or not one accepts those arguments—and there are serious reasons to question them—it is undoubtedly true that MNC's can and do deeply affect the world as a whole. It is at least conceivable that, under proper regulation, national and international, they can be made transmission belts for high social and economic standards rather than—as they are too frequently now—instruments for the competitive degradation of standards by countries seeking their favors.

With the above preliminaries out of the way, I will attempt now to answer the specific questions posed by the subcommittee and also, as invited by Senator Ribicoff's letter, to cover certain other matters pertaining to MNC's.

IMPROVING U.S. COMPETITIVENESS

The first question on the subcommittee's list is:

> What can be done to improve the competitive position of U.S. industry in world markets and to create additional employment in the United States, and what contributions can multinational companies make to this end?

I would suggest that at least partial answers can be found in the following areas which I will discuss in more detail below: (1) Effective full employment policies. (2) Elimination of tax incentives that encourage investment in other countries at the expense of the United States. (3) Establishment of a licensing requirement for foreign investments by U.S. corporations. (4) Imposing a penalty tax on U.S. corporations that refuse to compete against foreign-made products. (5) Amendment of the GATT agreement to provide for international fair labor standards. (6) Encouraging use of the dollar overhang to reduce the powers of the MNC's. (7) Encouraging technological and product research and development by American industries.

1. Full employment.—It is well known that high levels of unemployment and resultant low rates of capacity utilization have depressing effects on productivity. The United States has placed itself at a severe disadvantage in this regard by failing to carry out the mandate of the Employment Act. During the period 1959 through 1971, our unemployment rate has averaged approximately 2½ times as high as the weighted average for those of our major trading partners—excluding Canada whose employment rates are largely made in the United States—for whom BLS computes comparable figures.

Unemployment, of course, discourages investment because it limits markets and thus renders much of existing productive capacity "excessive." In contrast, investment abroad becomes much more attractive. Thus failure to maintain full employment deprives our economy of capital that could be used to modernize our industries and thus make them more competitive. It goes instead, under the auspices of the MNC's, to increase the productivity of competing countries.

Our government has been deterred from applying effective full employment policies by misguided fears of inflation. The fact is that our major trading competitors, who are far more dependent on competitiveness in international trade than we are, have had more inflation during the postwar period as a whole—and again recently—than the United States. Yet our trade balance has deteriorated drastically while their balances, in general, have been improved.

In any case, with public opinion restraints on oligopolistic price abuses applied by a price wage review board of the kind the UAW has repeatedly proposed and with selective measures to correct supply-demand imbalances, we can reconcile full employment and price stability.

2. Eliminate tax incentives for capital exports.—It is understandable that U.S. corporations should invest abroad, so long as they are permitted to do so, whenever it serves their profit-maximizing purposes. It is absolutely incomprehensible, however, that our tax system should provide huge financial incentives which have the effect, in many cases, of making corporate investment abroad preferable to investment at home.

Nevertheless, our tax laws do just that. The incentives involved include deferral of taxes on unrepatriated profits of foreign subsidiaries, a credit for foreign taxes on profits and various tax preferences for Western Hemisphere trade corporations, less developed country corporations and investment in U.S. possessions.

Under tax deferral, profits of foreign subsidiaries of U.S. corporations are not taxed unless and until they are remitted to the U.S. parent corporation as dividends. They escape taxes forever if they are reinvested abroad. Withholding taxes on dividends levied by many countries further encourage such reinvestment. Even if the profits are ultimately repatriated, the taxes on them, during the period of deferral, amount to an interest-free loan from the U.S. Government which gives the corporation involved considerably more to invest abroad than it would have available for domestic investment if the same profits were brought home and thereby made subject to U.S. taxes.

Elimination of tax deferral on foreign profits, of course, would also eliminate the excuse that was used to secure enactment of the DISC legislation that defers taxes on part of the profits of U.S. corporations' export sales subsidiaries. The argument was that the DISC deferment would reduce the advantage of foreign over domestic production for U.S.-based corporations. In other words a new tax loophole was opened to offset the harmful effects of an existing loophole, when the obvious solution was to close the latter. I urge the repeal of both types of deferrals.

The foreign tax credit permits U.S. parent MNC's to reduce the amount of U.S. profits taxes they otherwise would pay by the amount of profits taxes paid to foreign governments. This may, at first glance, appear to be neutrality as between foreign and domestic investment; but it is quite different from the treatment of profits taxes levied by the various States of the U.S. State taxes are treated as deductions, which have the effect of reducing the amount of profits on which Federal taxes are payable. This means that every dollar paid in State taxes saves the corporation 48 cents in Federal taxes. The credit allowed for foreign taxes saves the corporation a full dollar of U.S. taxes for every dollar paid in foreign taxes, subject to certain qualifications that have only minor effect. In fact the savings are dollar-for-dollar even on profits taxes paid to foreign local governmental units, which means that such taxes, also, are given more favorable treatment than the State taxes which are their U.S. equivalent.

Weighing the considerations of neutrality and equity raised by the tax credit, Prof. Peggy B. Musgrave, in a thoughtful paper prepared for the Joint Economic Committee, wrote:

> However this may be, neutrality in international capital flows and equity are not the only considerations. From the point of view of national productivity it may be argued that foreign profits taxes should be deducted rather than credited. By putting the foreign investment decision to this more demanding test, foreign investment would be limited so that returns net of foreign taxes would not fall below gross returns obtainable on investment made in the U.S. It may be argued that from the point of view of U.S. self-interest, this is the proper solution.

Ms. Musgrave estimates that the annual loss in U.S. Government revenues from tax deferral and the tax credit, in combination, may run as high as $3.3 billion—which is also a measure of the size of the incentives these loopholes provide for foreign in preference to domestic investment.

Ms. Musgrave recognizes that:

> * * * production by U.S. affiliates abroad, particularly in manufacturing, may serve to displace U.S. exports and even domestic sales in the United States.

She points out that the effects of competing for foreign markets via foreign production rather than through exports are quite different in their:

> * * * effects on labor productivity and shares in national income. Foreign investment may enhance the private profitability of U.S. capital but it is likely to reduce the real wage to U.S. labor as well as the Government's tax share in the profits.

The remaining tax preferences referred to above (that is, for Western Hemisphere trade corporations, et cetera) amount, in effect, to windfalls for corporations disguised as aids to economic development. Subsidies in equal amounts, in the forms of government loans, grants, and technical assistance would probably be far more effective in serving the avowed economic development purpose.

Based upon her very thorough analysis of tax preferences to foreign investment, Ms. Musgrave concludes that they should be reviewed and reevaluated. With respect to the tax credit, although she advances strong arguments that would justify its complete elimination, she suggests that it be limited to less than 100 percent.

Another point that deserves notice in connection with the tax credit is that it may in certain cases—particularly in countries where the major corporations are U.S.-based MNC's—encourage governments to impose higher profits tax rates than they would in the absence of the credit thus, in effect, transferring revenues from the U.S. Treasury to their own.

On balance, I am inclined to recommend repeal of all of the tax preferences for foreign investment with the reservation that further study should be given to the alternatives of complete elimination or sharp reduction of the present 100-percent credit for foreign profits taxes.

3. License capital exports.—The administration intends to phase out, by the end of 1974, at the latest, the controls on foreign direct investment presently in effect. This inevitably will aggravate the hemmorrhage of dollars to the foreign subsidiaries of U.S.-based MNC's, thereby further damaging the U.S. balance of payments and further improving the competitive position of other countries relative to ours. The existence of the MNC's calls instead for a tightening of controls and for putting them on a selective basis.

The UAW, for several years, has been advocating the adoption of legislation that would require licenses to be obtained for foreign investments proposed to be made by U.S. corporations, including reinvestment of profits made in foreign operations. The applicant for a license should be required to show that the proposed investment will serve the interests of the United States economically and will be free from harmful political consequences. Licenses should be conditioned on a guarantee that the applicant will compensate in full for loss of wages, fringe benefits, seniority rights, et cetera, any U.S. workers adversely affected by the investment, whether because of imports or because of loss of export sales resulting from the investment. The licensee should be required, further, to conform to a comprehensive code of good behavior in relation to workers employed in the foreign operation.

Sweden already has taken the first steps toward imposing such a code on its MNC's. Their corporations' investments in certain less developed countries—LDC's—are eligible for government guarantees only if they meet specified standards for workers in the host countries covering such matters as collective bargaining rights; benefits for loss of wages during illness, injury, and layoff; pensions; a number of other health and welfare matters and racially nondiscriminatory employment policies.

The adoption of such a code of good behavior as a condition for exporting capital would contribute to the purpose mentioned above of making the U.S. based MNC's a vehicle for raising standards of social responsibility throughout the world.

Foreign exchange controls are widely in effect among the world's governments on the sound theory that foreign exchange resources are the property of the whole nation rather than of any corporation which chooses to use them. There is no reason why the United States should not have a capital export licensing system as one means of applying that theory.

4. Penalize refusals to compete.—The United States suffers from the strange phenomenon of major industries that deliberately refuse to compete either in the export or the domestic market or both. The U.S. auto corporations long ago decided they would not compete for export sales with products made in their U.S. plants. They chose to serve foreign consumers from plants located overseas. More recently, rather than take on Japanese car and truck producers in competition for both foreign and domestic sales, the U.S. based auto MNC's have chosen to join the Japanese manufacturers, investing in Japanese firms to produce cars and trucks for both the United States and the world markets.

The evidence that U.S. car producers refuse to compete with imports in their domestic market is indisputable. Even though the UAW had pointed out in January 1949, more than 24 years ago, that there would be growing United States demand for small cars and repeatedly urged the corporations to produce them, the industry did nothing whatsoever about the matter until the vacuum left at the low-priced end of the market was substantially filled by imports. In 1959 the big three producers introduced the so-called compacts. These were not directly competitive in price, size, and economy of operation with truly small cars such as the Volkswagen, imports of which continued to increase. Nevertheless, the compacts showed that competition was the answer. The tide of imports receded sharply after the compacts were introduced. But the industry soon began to make them larger, more complex and more expensive, thus opening the way for a renewed and sharp increase in the volume of imports consisting mainly of small cars to which the U.S. industry offered no competitive products. It was not until late 1970 that General Motors and Ford introduced such products—the Vega and Pinto, respectively. Chrysler still refused to compete, preferring to counter imports with its own imports—the Colt, from Japan, and, until recently, the Cricket from England. GM and Ford may have waited too long, however. By the time their small cars entered the market the importers were deeply entrenched with widespread networks of dealer and service organizations.

All through this period, the auto industry's rates of return on investment persistently ran far higher than the average profit rate for all U.S. manufacturing industry while imports continued to flood into the country. Where an industry obtains superprofits while simultaneously its domestic market is penetrated deeply by imports, the conclusion is inescapable. That industry clearly is deliberately refusing to engage in price competition with imports. I include under price competition the manufacture of low-price, low-profit products which the auto industry studiously avoided until recently.

Similar refusal to compete is evident in the steel industry. On the one hand, United States Steel, the price leader in the industry, as Gardiner Means has shown, raised its profit target from 8 percent on investment when operating at 80 percent of capacity to 16 percent and increased its prices accordingly. On the other hand, while claiming that the higher profits were necessary to finance investment, the U.S. steel industry lagged far behind its foreign competitors technologically, enabling them to obtain substantial cost advantages which were reflected in rising steel imports into the United States.

Aside from the obvious employment consequences, abdication of both the export market and a large share of the domestic market by the auto and steel industries dealt multibillion dollar blows to the U.S. balance of payments. Similar tales could be told about other U.S. industries.

In order to deal with such refusals to compete, I proposed to the Joint Economic Committee on September 20, 1971, the enactment of a Competition Promotion Tax which would severely penalize corporations that consistently earned excessive profits while simultaneously tolerating persistent and sizable import invasions of the U.S. market for their products. I will not repeat the details of the tax here, for they are rather technical. I strongly recommend, however, that the members of the subcommittee examine my testimony on the subject.

5. International fair labor standards.—The extent to which disparities in wages affect international competitiveness is a matter for conjecture. The indications are that the same MNCs that use lower wages paid in other countries, accompanied by threats of job losses for their U.S. workers, as a weapon in collective bargaining, respond to surveys on the subject with denials that low wages motivate them to invest abroad.

The Ford Motor Co., in its negotiations with the UAW, has made much of the threat of low-wage competition to the U.S. auto jobs while conveniently ignoring the fact that some of that competition comes from its own overseas plants. One of its own spokesmen, however, has argued directly to the contrary.

Robert Stevenson, former president of Ford International, pointed out in an interview with a British magazine in 1970 that:

> If you add up all the elements of a car, from tyres to engine, glass, seats, etc. (without counting raw material), the total number of working hours embodied in a car is between 65 and 70.

He went on to say that because the labor element in total costs is so small: Hourly wages don't make the difference anymore between manufacturers in different countries.

Differences in wage rates are often offset by equal or greater differences in productivity. But where wide disparities in wage rates exist side by side with approximately equal productivity, or where the wage rate differences are far greater than the differences in productivity it is obvious that the low-wage employer has an unfair competitive advantage obtained by denying his workers a fair share of the wealth they produce. This has long been recognized as a problem that should be corrected. Accordingly, the Havana Charter for an International Trade Organization which was signed by representatives of some 50 nations in 1948, but not ratified by enough of the latter to make it effective, included an article headed "Fair Labour Standards" which provided in part:

> The Members recognize that measures relating to employment must take fully into account the rights of workers under inter-Governmental declarations, con-

> ventions and agreements. They recognize that all countries have a common interest in the achievement and maintenance of fair labour standards related to productivity, and thus in the improvement of wages and working conditions as productivity may permit. The Members recognize that unfair labour conditions, particularly in production for export, create difficulties in international trade, and accordingly, each Member shall take whatever action may be appropriate and feasible to eliminate such conditions within its territory.

Means were provided in the charter for settlement of disputes relating to labor standards.

The U.S. Government has raised the issue of fair labor standards in GATT negotiations from time to time but, apparently, has never given it the emphasis it deserves. The Roth report, issued in 1969, spoke out strongly on the matter and concluded:

> The United States should * * * seek, through the GATT and the ILO and possibly other international organizations, to develop international agreement upon a workable definition of fair labor standards and upon realistic means for their enforcement.

More recently, the report of the Williams Commission, a majority of whose members were bankers and industrialists, said:

> The Commission therefore recommends that the United States actively support a multilateral effort to gain international acceptance of a code of fair labor standards which would include a workable definition of the concept and realistic means for enforcing the code.

It is long past time for Congress to do whatever lies within its power to press the administration to take the labor standards problem seriously and to raise it in GATT an as urgent matter.

6. The dollar overhang and the MNC's.—In the current situation, with reform of the international monetary system a crucial issue, the U.S. has a unique opportunity to take national action to combat a major threat created by the MNC's—the trend toward international oligopoly that threatens not only workers but the world's consumers as well. Richard J. Barber has written:

> A good guess is that by 1980 three hundred large corporations will control 75 percent of all the world's manufacturing assets.

Others have made similar projections.

While international oligopoly grows apace, moves toward monetary reform are seriously impeded by the "dollar overhang"—the problem of how to dispose of the variously estimated 60 to 80 billion U.S. dollars in the hands of foreign governments, central banks, and private organizations and individuals around the world. Those dollars emigrated largely as a result of foreign investment by U.S. MNC's. They obviously cannot be redeemed out of the Nation's limited gold holdings and it is almost certain that their holders will demand something more tangible than SDR's for their dollars.

Two problems could be alleviated simultaneously if the U.S. Government would encourage foreign owners of dollars to use them to acquire the assets of the subsidiaries of U.S.-based MNC's operating within their respective national boundaries. Those subsidiaries would then become independent national competitors of their present parent MNC's, thus reversing—at least temporarily—the trend toward world oligopoly. At the same time, a substantial part of the dollar overhang would be removed as an obstacle to reform of the international monetary system. While the administration is unlikely to advance such a proposal, it might be compelled to accept it under pressure from other governments, some of which are deeply disturbed by the power exerted within their boundaries by U.S.-based MNC's. Congressional expression of support for the idea could stimulate other governments to act.

Use of the dollar overhang to buy out foreign subsidiaries of the U.S.-based MNC's would leave the latter no choice in overseas markets except to compete for sales with products made in their U.S. plants. In order to do so, they would have to lower their prices in the domestic market lest they be penalized for dumping in other countries. The result would be both increased competitiveness for U.S. products on the world market and increased employment opportunities for U.S. workers in producing both for the export market and to meet the greater demand in the domestic market that would be created by lower prices.

An alternative that has been proposed—investment of foreign-held dollars in U.S. enterprises, old or new—would contribute to solution of the monetary problem but, through the strengthening of existing non-U.S.-based MNC's and the creation of new ones, it might aggravate the oligopoly problem.

Given effective full employment and economic growth policies in the United States, the employment effects within the United States would probably be the same with either method of eliminating the overhang. The dollars returned to the United States would be able to find investment outlets that would increase employment opportunities.

7. Encouraging research and development.—Improved research and development by U.S. industries, in some cases at least, could enable them to compete more effectively both with imported products and on the world market. In connection with the latter there is evidence that more R. & D. is needed to adapt existing products or to develop new products to meet the tastes and needs of potential foreign purchasers, One way to stimulate the needed R. & D. would be to apply the approach used for another purpose under the British Industrial Training Act, which appears to have been highly successful. An R. & D. tax should be imposed on all firms, with provision made for rebates of the tax to those with R. & D. programs that meet specified standards. Small firms should be permitted to pool their R. & D. activities in order to obtain the rebates. There are many industries—some severely affected by imports—in which the typical firm is so small as to make impossible any significant R. & D. (The tax approach suggested above would avoid the windfall effects of so-called tax incentives—such as the investment tax credit—which needlessly erode government revenues by giving handouts to corporations for doing what they would have done anyway.)

FOREIGN ACTIONS AFFECTING U.S. INVESTMENTS

The subcommittee's outline for this hearing asked:

> To what extent do foreign trade barriers and the actions of foreign governments encourage the shift of American productive facilities and technology to other countries, and how should these problems be treated?

The excuse frequently offered by the MNC's for investing abroad rather than at home is that, because of tariff or nontariff barriers or local content requirements imposed on certain products by some countries, they would be unable to gain or retain access to the markets involved unless they established production facilities inside the political boundaries of those countries (or regions, such as the European Communities).

That undoubtedly is true in certain cases. But the claim leaves three important questions unanswered: (1) What proportion of the total exports of U.S. investment capital—in actual fact—is attributable to trade barriers imposed by other countries? (2) Whatever that proportion might be, would the capital involved better serve the interests of the United States, and indeed of the world as well, if invested at home rather than abroad? (3) To what extent do foreign governments—often acting under pressure from the MNC's—attract the capital of U.S. corporations by offering special concessions, subsidies, restrictions on labor, or other enticements that, while increasing the profitability of the capital thus attracted, distort the international allocation of resources in such a way as to diminish rather than add to the welfare of the world's peoples?

1. Effect of trade barriers.—The answer to the first question requires searching investigation into the cold, hard facts and figures of specific cases. Obviously, we cannot accept the self-serving statements of the MNC's as the basis for national policy. We were put on notice on that score nearly 200 years ago by Adam Smith, the father of modern economics, when writing in the "Wealth of Nations" about the attempts of business interests to influence public policy, he warned:

> The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.

Yet, so far as I know, all the "data" we have at present consists of the MNC's own responses to survey questions asking them why they chose to invest in other countries rather than in the United States. Moreover, the surveys were made in most, if not all, cases by organizations created to serve the interests of, or otherwise biased in favor of, the MNC's.

Ms. Musgrave writes that spokesmen for the MNC's:

> * * * have asserted that selling of exports abroad is frequently merely a prelude to foreign investment. That is to say, manufacturing operations are shifted abroad once the foreign market is explored and established via exports. Production abroad may be chosen in order to take advantage of lower labor and transportation costs, to escape tariffs, to benefit from lower taxes or for other reasons.

In other words, trade barriers did not exclude the exports involved prior to the shifting of the manufacturing operations, and were not the cause of the shifts.

What is required is investigation, conducted under subpena power, of the actual facts concerning the relative costs—including social costs—involved in serving the markets concerned from U.S. production facilities on the one hand and foreign facilities on the other. The investigation should, of course, take full account of trade barriers wherever they are claimed to be a factor. It would also take into account, however, whether, despite those barriers, the markets might not, nevertheless, be served from U.S. facilities if the corporations involved were willing to invest comparable amounts in modernizing their U.S. plants or to accept lower profits than those obtainable from foreign operations. In cases where a reduction of profits would result, the amount of the reduction and its costs, if any, to the United States as a whole should be balanced against the benefits to be gained by substituting U.S.-produced exports for foreign production.

I urge this subcommittee to undertake such an investigation of at least a few of the major MNC's that claim their foreign investments are attributable to trade barriers. I am sure it would be most revealing.

The UAW's proposal to license capital exports—discussed elsewhere in this statement—implicitly would require that such an investigation be made in every case where a license were sought, for one of the proposed conditions for issuing a license is that the investment involved be shown to be in the interests of the United States.

Where trade barriers are found to play an important part in inducing investment outflows from the United States, the administration, of course, should attempt to negotiate their elimination or reduction. We would support sound legislation to give the administration all the authority it needs in order to conduct effective trade negotiations.

2. Effect on U.S. interests.—Even where it can be demonstrated that, in the given case, trade barriers would, in fact, prevent service of the market involved by exports from U.S. facilities that, in itself, is not necessarily sufficient justification for making a foreign investment, or for permitting it to be made. As noted, we in the United States, together with all other industrialized countries, have a vast network of regulatory laws governing the operations of corporations because we are aware that the interests of private industry do not automatically coincide with the public interest and, in fact, are often in conflict with it. On the domestic front, we have long since abandoned the notion that all will be for the best in the best of all possible worlds if only we will place our faith in and trust our fate to the unbridled pursuit of profits. It is long past time now that we safeguard the public welfare against unrestrained pursuit of profit in the international economy.

The conflict between public and private interests as it relates to foreign private investment is well stated in Ms. Musgrave's paper. She wrote:

> Any meaningful assessment of the effects of foreign investment on the U.S. trade balance must allow for alternative uses of the capital and other resources. For instance, investment at home rather than abroad may result in modernized or lower cost operations or the development of new products for export. The capital might even be encouraged through Government policies into such socially needed purposes as urban reconstruction, environmental improvement and so on. Or, as an alternative to foreign investment (to the extent needed to keep foreign markets in U.S. hands) an effective system of export subsidies might be devised.

The question of alternative domestic uses of the capital invested abroad applies, of course, not only in relation to the balance of payments effects mentioned by Ms. Musgrave, but also to all other considerations relating to foreign private investment.

Thus, even where trade barriers block U.S. exports, we would often be better off, as a nation, to forgo the sales involved and to invest the capital in question at home.

3. Foreign concessions and subsidies.—Economists and others all too often take it for granted that the MNC's contribute constructively to maximization of welfare on a global basis by promoting a rational international division of labor. The underlying assumption is that corporate comparative advantage is identical with comparative advantage in the traditional meaning of the phrase. That assumption, however, does not withstand even a cursory look at the practical considerations that determine the manner in which MNC's allocate their investments among the world's nations.

Spokesmen for the MNC's are often heard to say that a major factor affecting their decisions is "investment climate." We, in the United States, to our sorrow, are all too familiar with the practical meaning of that phrase as it is used by corporations in their lobbying activities in State capitols and city halls. The investment climate is deemed best in States and cities where business taxes are lightest (and public service, consequently, most substandard); where labor laws are most restrictive, unions weakest, and wages lowest; where toleration of environmental pollution is greatest; and, in general, where legislatures and city councils are most easily intimidated to do the bidding of the corporations.

On the international scene, similarly, "investment climate," backed up by threats to withhold or relocate investments, is used to blackmail nations into mutually damaging competition, enabling the MNC's to extort concessions, subsidies, and special privileges that largely nullify whatever public benefits might otherwise flow from their investments. A kind of Gresham's law operates under which bad social standards drive out good standards.

The depredations of MNC's are greatest among the less developed countries, whose urgent needs for investment place them in weak bargaining positions in relation to MNC's. (Exceptions are possible only for countries such as those in the Organization of Petroleum Exporting Countries which control a scarce resource and are able to maintain a rare degree of solidarity.) But even advanced industrial countries of Western Europe debase themselves in competition for new plants proposed to be built by U.S.-based MNC's.

Among the concessions sought and all too often obtained are tax holidays or other forms of tax abatement, exceptions to foreign exchange regulations, costly infrastructure investment by the host country, and various other types of subsidies, tariff protection, monopoly privileges, restrictions on the export markets which local MNC branches or subsidiaries are permitted to serve, restrictive labor legislation, and other measures to assure "cheap labor."

The MNC view of the world is typified by the statement of Mr. Henry Ford II, who said:

> In South Korea, Taiwan and Indonesia we see promising markets and we see an attractive supply of cheap labor.

Allocation of investment on that basis bears only coincidental resemblance to the results of the economists' cherished theory of "comparative advantage"—the premises and assumptions of which, in any case, are now invalid because they do not correspond to the facts of today's world.

International regulation of MNC's must include effective means to end the "investment climate" game—to prevent them from enticing nations to put the welfare of their peoples on the auction block in competitive bidding against other countries for private foreign investment.

FUTURE COMPETITIVE POSITION

The subcommittee's outline for the hearings asked:

> What will be the competitive position of our basic manufacturing industries 10 or 20 years from now if our present tax, trade, and antitrust laws continue to be essentially unchanged?

I have made clear earlier in this statement my belief that our present tax laws, as they apply to foreign invstment, do serious damage not only to our competitive position but also to other national objectives.

In commenting on present trade laws, I should emphasize that we in the UAW are not doctrinaire free traders nor do we favor competition merely for competition's sake. We believe that all economic policies and activities must serve human ends and that none must treat human beings and their welfare and security as expendable pawns in the service of someone's concept of a "larger national purpose." We favor trade liberalization if accompanied by sound policies to assist those who are dislocated and to control oligopolistic abuses that deprive consumers of the potential benefits of international trade.

We feel that U.S. workers have much to gain if tariff and nontariff barriers maintained by other countries against the goods they produce can be eliminated or reduced in trade negotiations. But negotiations to that end will require that we also remove or reduce barriers to imports from the other countries—which will mean jeopardy to the jobs of some workers. The vast majority of consumers whose incomes will remain secure and who will share in the gains from trade liberalization owe it to those who will face dislocation to provide them with adjustment assistance no less generous than that available to the workers displaced by the creation of Amtrak—the details of which are summarized later in this statement.

Aside from the moral issue involved, we believe that the political realities dictate the enactment of Amtrak-type adjustment assistance. It seems to us most unlikely that workers generally will give the wholehearted support to trade liberalization that is essential for its effectuation if they are asked to bear the risks and sacrifices that increased imports might impose upon them in a national atmosphere of persistently and inexcusably high unemployment.

If their legitimate fears prevent the United States from negotiating for trade liberalization, it seems clear that the Nation's international competitive position will suffer. The growing economic strength of the European communities and its wide-ranging network of preferential trade agreements with nonmember countries, plus the likely development of exclusionary blocks in other parts of the world, combined with our own increasing need for certain types of imports, will almost inevitably undermine our competitive position and aggravate our balance of trade problems.

Insofar as antitrust legislation is concerned, I am aware, of course, of the claims made by spokesmen for industry that present legislation hampers them in international competition. I have yet to see plausible support for those claims. It seems to me that the U.S. objective should be to eliminate restrictive trade practices throughout the world, including those that continue under our present laws.

Instead of retreating from our present antitrust laws, weak as they are already, I would urge that we support the moves being made in UNCTAD and elsewhere toward international agreements to eliminate restrictive business practices throughout the world.

POLICIES TO EASE DISLOCATIONS

The subcommittee's outline asks: "What policies should the United States adopt to ease the effects of economic dislocations while seeking improvements in our competitive position in world trade?"

Our primary goal must be to avoid dislocation. Some of the suggestions advanced above are directed toward that end. We recognize, however, that the changes that occur in dynamic national and international economies will inevitably cause decreases in employment in some industries and will have a disproportionately severe impact upon some communities. The problem is to avoid or minimize human hardships and economic waste that would otherwise result from such changes.

That problem, of course, is most easily solved in a full employment economy. Unfortunately, however, the national commitment to "maximum employment, production and purchasing power" expressed in the Employment Act has been honored more in the breach than in the observance. As previously noted, our record on the employment front is an unmitigated disgrace by comparison with other industrialized countries. The obvious first step to ease the effects of economic dislocations, therefore, is to carry out in practice the commitment made in the Employment Act.

Even under full employment, however, workers will need help to tide them over during the transition to new jobs. Under full employment conditions, the transition period for most workers will tend to be short. But even in Europe, where much lower unemployment levels prevail, the need has been recognized for transitional assistance (which incidentally, is set at 100 percent of the affected workers' lost wages, under certain conditions, by the Rome Treaty that created the Common Market).

ADJUSTMENT ASSISTANCE

Transitional aid or "adjustment assistance" clearly represents a special national obligation where dislocation results from national policies—in the present context policies relating to trade and foreign investment. Since national policies are designed presumably to achieve benefits for the whole nation, no individual should be required to bear a disproportionate share of the costs of gaining those benefits.

This means that no adjustment assistance program can be considered adequate or equitable unless it provides that the workers be made whole—compensated in full—for all losses of wages, fringe benefits, seniority rights, et cetera, resulting from the national policy involved. They should be required to bear no more of the costs of obtaining gains for the whole nation than their fair share of the taxes levied on all citizens to finance such a program of adjustment assistance benefits.

Only under those circumstances will it be possible to say truthfully that the burdens as well as the benefits are equitably distributed.

We have approximated such assistance recently in an analogous situation in which workers were dislocated as a result of national policy. When Congress decided that the national interest required the consolidation of railroad passenger service under a Government-created corporation—now know as Amtrak—Congress foresaw that some railroad workers would be dislocated and provision was made to protect them. The detailed protections were ultimately worked out by the Labor Department in consultation with the railroads and the unions involved. They provide that, if a railroad worker is laid off or downgraded as a result of the creation of Amtrak, he is assured of the full wages and fringe benefits applicable to his former job, plus any subsequent increases in wage rates or improvements in fringe benefits. Maintenance of his wage rates and fringe benefits continues for a period of time equal to the length of his previous railroad employment up to a maximum of 6 years. Lower wages and inferior fringe benefits from other employment are supplemented to the same level and for the same duration. In addition, if the worker is transferred to a railroad job at another location, he will receive full reimbursement for all family moving expenses, including compensation for loss incurred in the sale of his home or any penalty paid for cancellation of his lease. Provision is also made for retraining and for lump sum severance pay to those workers who prefer the latter to income maintenance benefits.

There is absolutely no reason in logic or equity why similar provision should not be made for workers dislocated as a result of the Nation's international trade and investment policies.

In general, the cost of such adjustment assistance—which would tend to be negligible under full employment conditions—should be financed out of general revenues.

There is, however, one important exception with respect to the financing of adjustment assistance. Where an international corporation causes dislocation of its workers by its foreign investments, the corporation rather than the taxpayers should bear the primary responsibility for meeting the costs of adjustment assistance.

Such foreign investments are motivated solely by the interests of the corporation involved. They would not be made if the corporation did not expect to profit from them and there is no law that requires any corporation to make any such investment. National policy and the national interest play no roles, except as rationalizations, in corporate decisions to invest abroad. In fact, there are strong reasons to believe that such investment, more often than not, runs directly contrary to the national interest.

It is a fundamental principle of economics that no action can be considered economically sound unless the benefits involved exceed the costs. The difficulty with many business decisions is that calculations of cost-benefit relationship are distorted because the firm involved is able to shift part of the costs to others—to its workers or the public. Thus, a decision that is profitable for the corporation may be grotesquely unsound economically when all costs—including social costs—are taken into account.

This is certainly true of decisions concerning foreign investment where the firm is able to shift to its workers and the taxpayers the cost of dislocations resulting from the investment. The solution in the jargon of economists, is to "internalize the externalities"—to compel the corporation to bear all costs flowing from its actions and thus to assure that it will take the full cost into account before making an investment decision.

There is much more to be said on adjustment assistance for workers than what is set forth above. UAW Vice President Douglas Fraser presented detailed testimony on the subject to the Subcommittee on Foreign Economic Policy of the Committee on Foreign Affairs of the House of Representatives on May 17, 1972. I hope the members of this subcommittee will examine his statement.

The Fraser statement also discusses the important subject of assistance to communities affected by dislocation.

Under certain circumstances, adjustment assistance should be provided for firms as well as workers and communities. I will leave it to spokesmen for business to discuss that aspect of the problem.

TEMPORARY TARIFF QUOTAS

Situations can arise in which a sudden and unanticipated flood of imports of a product threatens large scale disruption to workers and communities which would put an unduly heavy burden on adjustment assistance mechanisms. The phrase commonly used to describe such situations is "market disruption."

Under such circumstances, the UAW supports the use of temporary tariff quotas. Imports at previous volumes, or possibly even somewhat higher volumes, would continue to be admitted to the United States at preexisting tariff rates (including zero rates). Imports in excess of the specified volume would be subject to a higher tariff set at a level which would tend to exclude additional imports so long as domestic producers did not increase their prices unduly. (The UAW does not call for outright import quotas because they have the effect of freeing domestic producers from price competition by foreign producers.) The quota (that is the quantity of imports) above which the extra tariff applied would be scheduled in advance to be phased upward (or the extra tariff could be phased downward) to permit orderly adjustment to an increasing volume of imports. Increases in the quota could be geared, if deemed necessary, to the attrition rate of the industry's work force—which would tend to minimize displacement. Under favorable conditions—for example, full employment and the growth of new industries in the affected communities, which would facilitate placement of the industry's workers in equally good or better jobs—the quota could be increased more rapidly. Ultimately, the tariff applied to the total volume of imports of the product would be reduced to its original level. Meanwhile, the affected industry, communities and workers would be aware that the tariff quota would be removed and would plan accordingly. Meanwhile, also, the Government could help them to plan and to carry out their plans.

ALTERNATIVES TO HARTKE-BURKE BILL

The final question asked by the subcommittee's outline is: "Are there realistic alternatives to the solutions embodied in the Hartke-Burke legislation?"

I have attempted in the preceding pages of this statement to indicate what I consider sound and feasible alternatives to the Hartke-Burke bill. I will offer further proposals later in this statement. I have also stated why the UAW opposes the quota provisions of that bill—although, as indicated above, we would support enactment of certain of its tax features applicable to MNC's.

The UAW's approach to the trade matters covered by the bill can best be summarized by quoting the opening paragraphs of the resolution on "International Corporations and Foreign Trade" adopted at our last convention held in April 1972, which state:

> Workers everywhere have much to gain from a rational international division of labor in which each national group of workers shares equitably in the fruits of its contribution to the world's wealth. Under these conditions, the free movement of goods among countries provides major benefits to workers, who are employed to produce goods for export, and to consumers, who enjoy lower prices based upon a sound international division of labor.
>
> Substantial numbers of UAW members—in the aerospace and agricultural implement industries, for example—owe their jobs to a high volume of exports of their industries' products. UAW members, together with other consumers, are able to improve their living standards when they can buy imported goods that offer price or quality advantages over domestic products. When such imports are available, domestic producers are under pressure to reduce prices, improve quality or manufacture competitive products. The Vega, Pinto and Gremlin are being produced in the U.S. today only because of high demand for small imported cars.

I cannot stress too strongly, however, the relationship between our support for trade liberalization and our insistence upon Amtrak-type adjustment assistance. The UAW is a democratic organization whose policies are made by convention delegates elected by the members. If the latter become convinced that those who seek the gains available from trade liberalization are not willing to share equitably in the burdens involved—if the workers are to be required to bear more of those burdens than their share of the taxes required to finance benefits sufficient to avoid any additional sacrifice on their part—there is grave danger that UAW's support for liberal trade policies will be reversed by the membership.

Other matters

Before turning to the necessity for the United States to participate actively and constructively in the creation of an intergovernmental system of regulation of MNC's, I should like to comment briefly on a number of matters not dealt with specifically by the subcommittee's outline.

EMPLOYMENT EFFECTS OF MNC'S

Propagandists for the MNC's argue that foreign investment does not decrease but in fact increases employment opportunities for U.S. workers. Ms. Musgrave analyzes their arguments in considerable detail and I strongly recommend that the members of the subcommittee study her analysis. I will confine myself to quoting two excerpts from that analysis.

Referring to the assumption of MNC spokesmen that in the absence of U.S. foreign investment domestic investment would not have been correspondingly higher but the investments of foreigners would have been higher because of the absence of competition from U.S. affiliates, she wrote:

> In evaluating this conclusion, it is difficult to see why there would be no alternative opportunities for such investments in the United States, especially under an assumption of a fully employed economy secured by appropriate stabilization policies. It can hardly be claimed that the U.S. economy has run out of socially and privately beneficial investment opportunities . . . If private domesitc investment opportunities are limited, i.e. if the stagnation thesis of the thirties is validated, stabilization policy has to be adjusted accordingly by encouraging consumption and public investment expenditures. Furthermore, if U.S. investment abroad should indeed displace that of the foreign countries themselves and hence have no effect on relative levels of capital formation among countries, there would seem to be little economic rationale in encouraging it.

In reply to a further assumption of MNC proponents—that the increased investment by foreigners mentioned above would have displaced U.S. exports—she wrote:

> It is surely not "share of foreign markets" by U.S. capital which is the relevant objective but "share of foreign markets" by U.S. value-added, including both that contributed by American capital and labor. The former objective may have some political significance but little of an economic nature. If we are interested in the share of American value-added in world markets, then export subsidies might well be preferable to foreign investment, and combined with restraints on capital outflow.
>
> Unless it is assumed that the funds invested abroad would not in any case have been invested at home, the effects on U.S. employment must be negative for the loss of investment (and reinvestment) at home exceeds the additional exports to U.S. affiliates abroad; and both are subject to the same multiplier. Furthermore, such exports to U.S. affiliates must be compared with exports to foreign-owned companies, which, it is held, are displaced by the investment from the United States.

BALANCE OF PAYMENTS EFFECTS

Ms. Musgrave points out that the return flow of income to the United States from foreign investments exceeds the outflow for new investment mainly because of the long and large accumulation of past investments. She notes also that the outflow was limited in recent years by governmental controls on direct investment despite which there was an upsurge in outflows in 1970 which sharply reduced the favorable balance between investment and return income flows. (The controls in question are those the administration now proposes to phase out.)

Ms. Musgrave adds that because of the heavy reinvestment abroad of foreign profits, it is estimated that it takes from 7 to 14 years for a given unit of foreign investment to be "returned" for balance-of-payments purposes. She therefore concludes:

> Thus the short run consequences of a slowdown in capital outflow—including reinvested earnings—would represent a clear gain to the U.S. balance of payments.

This lends further support to our position that the proposed phasing out of foreign investment controls is exactly the opposite of the policy required from the balance-of-payments standpoint.

MONETARY SPECULATION

More than 150 years ago, Thomas Jefferson, observing the practice of the businessmen of his day, wrote:

> Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains.

The validity and current applicability of that generalization has been strikingly demonstrated by the speculation engaged in by American MNC's in world monetary markets against their own country's currency. U.S.-based MNC's, from all indications, played a major role in aggravating, if not actually precipitating, the monetary crises of 1971 and 1973—the latter of which still persists despite devaluation of the dollar.

President Nixon, in his August 1971 televised address on his new economic policy roundly condemned "international monetary speculators" whom he accused of "waging an all-out war on the American dollar." He neglected to note that executives of U.S. MNC's were among the leading speculators, nor did he propose that any action be taken to deter them from similar action in the future. Despite the outbreak of a similar "all-out war" this year, with the same cast of characters, the administration has still not come forward with any proposals to curb them.

Shortly after the President condemned the speculators, I called for a congressional investigation of the matter. I am therefore deeply pleased to learn that the subcommittee is undertaking such an investigation. I hope the investigation will not be inhibited, no matter how great the prestige of the culprits involved, in bringing dramatically to public attention all the unsavory and greedy aspects of their operations. For only on the basis of such public exposure of the facts are we likely to obtain enactment of the legislation that is needed to prevent similar abuses in the future.

FINANCIAL DISCLOSURE

In a democracy it is essential that the public have access to the facts concerning the uses and abuses of great private power. That applies not only to monetary speculation by MNC's but also to the nature and effects of their operations at home and abroad.

Nevertheless, despite the major impact of the MNC's on the United States and the world, financial data that would facilitate the formulation of sound policies relating to such corporations are largely shrouded in mystery. Figures relating to the operations of foreign subsidiaries of MNC's generally are published only if required by the host countries—which are often hesitant to do so for fear of offending the MNC's. What is published, rarely goes beyond the minimum required. The methods of accounting underlying the published data seem, in at least some cases, to vary widely from country to country among the separate national subsidiaries of the same MNC. Combined with problems relating to transfer prices (the prices charged each other by subsidiaries of the same MNC for components or products passing from one to the other, which are often manipulated to evade foreign exchange controls or to minimize tax liabilities) lack of intelligible financial data makes it well-nigh impossible for governments and others to evaluate the economic and social consequences of the MNC's operations.

I therefore urge that the SEC be directed by Congress to require all U.S.-based MNC's, as well as foreign MNC's operating in the United States, to publish financial data, calculated in accordance with uniform accounting methods and with detailed breakdowns of costs, for each national subsidiary. The published data, of course, should include the formula for determining, and the amount and nature of each of the corporationwide costs (for example, research costs) allocated to each subsidiary. Detailed information should be provided, also, on methods of calculating transfer prices. The tax collection agencies and the customs authorities of all nations have a deep interest and an imperative need for information needed to evaluate transfer prices.

MCN'S AND LESS DEVELOPED COUNTRIES

Mention was made earlier in this statement of the depredations of the MNC's in less developed countries. I will not go into detail on the many ways in which MNC's take advantage of the desperate needs of the LDC's for capital and jobs to engage in ruthless exploitation of their workers and their natural resources. Under guise of aiding development, the MNC's insist upon such excessive rates of profit that dividend remittances (to say nothing of other charges by the MNC's for licenses, etc.) sometimes convert the LDC's into capital exporters.

The proper solution to this problem, in my opinion, is direct government grants and soft loans from the industrialized countries to the LDC's, preferably through multilateral agencies. The United States has failed miserably to meet its obligations in this regard.

I am aware that development aid, despite its urgency, is politically in disrepute. One reason is the neglect of urgent domestic problems in the United States resulting from distorted national priorities.

While I urge that Congress appropriate development aid funds with a generosity commensurate with our country's wealth, I have no illusions that the amount of governmental aid will be materially increased in the near future.

Yet it is imperative for the sake not only of the impoverished peoples of the LDC's but also for political stability in the world that the flow of capital to the poor nations be increased by means that will lessen their dependence upon the MNC's which forces them into socially destructive forms of international competition.

I should therefore like to lend my support to a proposed method of providing nonexploitative development aid which presents fewer political difficulties than appropriations for that purpose. I refer to the so-called "link"—the proposal that the International Monetary Fund allocate a proportion of newly created special drawing rights (SDR's) to the LDC's for development of their economies. Under the present method of allocation of SDR's the wealthy nations, in effect, issue themselves additional claims on the resources of the poor nations. That is a situation that certainly should be reversed.

International regulation of MNC's

Former Under-Secretary of State George Ball has written: ". . . multi-national corporations and nation states are on a collision course."

That is undoubtedly true. The power of the MNC's, and their ability to pit nation against nation in competition for their favors as well as the many devices (e.g., transfer price manipulation) available to them to evade national laws and regulations, makes it necessary for governments to act in concert to bring them under the rule of new forms of international law.

As Professor Raymond Vernon has written:

> * * * the multinational enterprise as a unit, though capable of wielding substantial economic power, is not accountable to any public authority that matches it in geographical reach and that represents the aggregate interests of all the countries the enterprise affects.

Several of the suggestions advanced above to deal with particular problems created by the vast and still growing power of the MNC's would require intergovernmental action (e.g., adding a fair labor standards provisions to the GATT agreement and allocation of SDR's for development aid). But much more is needed than a piecemeal approach.

Although the hour is already late, we must consider ourselves fortunate that a few modest steps are already being taken toward comprehensive international regulation of MNC's.

Partly on the initiative of the labor movement and partly because of the concern of certain governments, particularly LDC governments, the issue of the MNC's is already on the agenda of intergovernmental organizations. The United Nations Economic and Social Council (ECOSOC) adopted a resolution on the subject in July 1972. The resolution took note of the statement in the UN's *World Economic Survey*, 1971, that:

> while these corporations are frequently effective agents for the transfer of technology as well as capital to developing countries, their role is sometimes viewed with awe, since their size and power may surpass the host country's entire economy. The international community has yet to formulate a positive policy and establish effective machinery for dealing with the issues raised by the activities of these corporations.

The main operative paragraph of the resolution called for creation of a study group on MNC's charged, among other things, ". . . to submit recommendations for appropriate international action . . ."

Earlier, the third session of the United Nations Conference on Trade and Development (UNCTAD), in a resolution on restrictive business practices, decided to set up an *ad hoc* group of experts on that subject which, based upon context of the resolution, will undoubtedly pay particular attention to the role of the MNC's.

In addition, in the fall of 1972, a meeting of government, management and labor experts convened by the ILO unanimously recommended that that organization undertake a study that would include the "elements" of "principles and guidelines" for MNC's in the field of social policy.

Ultimately, these early efforts must culminate in a new code of enforceable international law that will have to be almost as wide-ranging and as detailed as the national legislation than in advanced countries attempts—although with something less than full success—to channel private corporate power into service of the public interest. The day that will happen undoubtedly still lies in the distant future but we must do what we can to hasten its arrival. To quote President Vernon once again:

> The basic asymmetry between multinational enterprises and national governments may be tolerable up to a point, but beyond that point there is a need to reestablish balance. When this occurs, the response is bound to have some of the elements of the world corporation concept: accountability to some body, charged with weighing the activities of the multinational enterprise against a set of social yardsticks that are multinational in scope.
>
> If this does not happen, some of the apocalyptic projections of the future of multinational enterprise will grow more plausible.

I therefore urge this subcommittee and the Congress to leave nothing undone that lies within their power to do to assure that the full weight and influence of the U.S. Government are brought to bear in support of efforts to bring the operations of the MNC's under effective international regulation.

Senator RIBICOFF. The committee will stand adjourned until Tuesday at 10 o'clock when our first witness will be Mr. George Meany.

(Whereupon, at 12:10 p.m., the committee was adjourned until 10 a.m., Tuesday, March 6, 1973.)

MULTINATIONAL CORPORATIONS

TUESDAY, MARCH 6, 1973

U.S. SENATE,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON FINANCE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:33 a.m., in room 2221, Dirksen Senate Office Building, Senator Abraham Ribicoff (chairman of the subcommittee) presiding.

Present: Senators Ribicoff, Mondale, Bentsen, Fannin, and Hansen.

Also present: Senators Long, Hartke, and Bennett.

Senator RIBICOFF. The committee will be in order.

Our first witness today is Mr. Andrew Biemiller, director of legislation, AFL–CIO, accompanied by Nat Goldfinger, director of research, and Ray Denison, legislative representative.

It is good having you.

I thought your article in the New York Times business section last week was very informative.

STATEMENT OF ANDREW BIEMILLER, DIRECTOR OF LEGISLATION, AFL–CIO, ACCOMPANIED BY NAT GOLDFINGER, DIRECTOR OF RESEARCH, AFL–CIO, AND RAY DENISON, LEGISLATIVE REPRESENTATIVE

Mr. GOLDFINGER. Thank you.

The CHAIRMAN. Mr Biemiller, I read your statement. I am going to have to go to a budget meeting at 10 o'clock. I would like to ask a question.

Mr. Biemiller, it looks to me as though your statement highlights a thing that I have been predicting to my colleagues for some time, for years: organized labor was willing to support the foreign aid program and willing to support liberal trade policies. Yet it is clear there comes a time when you can see a policy that is exporting vast numbers of good jobs, and every prospect of exporting a great deal more, giving some concern to organized labor.

Do your people begin to feel as though maybe you have been had by your liberality in this foreign aid and trade field?

Mr. BIEMILLER. Well, I think you are quite cognizant of the fact, Senator, that up until about 1963 we were all out for a liberal trade policy; not for free trade but for a liberal policy. About that time we began to notice the problem of the loss of jobs. Since then we have studied it intensively and the real complete turnaround—that is, of the labor movement as a whole—came about 4 years ago when it became quite evident that we were in deep trouble with the loss of trade from the liberal trade policy and from the development of very stiff competition abroad.

But we emphasize as we do in this statement that a lot of that stiff competition abroad is from American multinational companies which is one of the paradoxes of this situation.

The CHAIRMAN. Well, you know, Mr. Biemiller, I had some meetings and some of the members of this committee have been meeting with some people who represent the various governments, the German Government and others, and one thing they point out to us, we talk about the fact that we have done so much to help these foreign countries and when our Nation finds itself hopelessly in a deficit position with these countries—$60-billion-plus of our dollars kinking around out of control—they say in effect to me in a subtle way, well, look, do you not understand that it is this way because American business interests wanted it this way. Do you not understand that some of your American corporations have made billions of dollars of profits out of this?

Now, are you aware of that, that in this aid-and-trade program some of our German and British friends feel that from their point of view this aid-and-trade program may very well have been more to make some American corporations successful and wealthy than to—than to aid them? So that some of them feel that perhaps the aid that their economics got out of it might have been secondary to the desire of this country to held promote the interests of some of our multinational corporations.

Mr. GOLDFINGER. Unfortunately, Senator, there is a lot of truth to that, and in fact the multinational companies and the international banks cashed in on the recent devaluation as they also did back in December 1971.

The CHAIRMAN. Here is one of the problems that occurs to me. We have had all these good news announcements out of the Commerce Department for years, for a 5-year period when they were telling us we had a favorable balance of trade, by leaving out the freight and insurance on the minus side and by adding the giveaways on the plus side. In other words, they would take a billion dollars of gifts to India for which we expected to get nothing back, to help meet a famine over there, and they put that down as though they made a billion dollars.

They would load up the plus side with illusory things such as giveaways and soft sales and then subtract from the minus side the freight and by doing that they would make the balance look about $5½ billion more favorable than it was.

Are you familiar with the fact—according to your staff estimate up here—if you put your trade on a basis that takes those two things into account, put it on a CIF basis as 90 percent of the countries do and proceed to take out the giveaways, we are running a $14½-billion deficit in trade rather than a $6- or $7-billion deficit as we are reporting right now?

Mr. GOLDFINGER. Yes, sir; and on that basis, Senator, I remember we went into this with you, sir, the last time we appeared before this committee. We have been running trade deficits on that basis for a long time now, not merely in the past 2 years.

The CHAIRMAN. Well, I am sort of tired of voting for these things like the DISC which tends to make the rich richer and make those which pursue the principle of "them as has gits," to try to correct the situation, where after you get to voting for it, every time you look at next year's you are in worse condition than you were time before.

It seems to me if you want to correct this position, there is one simple way you could do it. You can say every time somebody buys something here we will give them a receipt for it and just put the receipt on the dollar volume. If he buys a thousand dollars worth of goods here, that receipt can be used to bring in a thousand dollars worth of imports into this market. That way we would be gaining a balance in our trade.

Now, if you want to make it more complicated you could let a person with his receipt in a country that has deficit trading with us in turn trade that receipt over to a country who has surplus trading with us, such as Japan. If you did business along that line you could control your deficit. And that type of approach had more appeal to me than the kind of thing we had last time.

I guess you know that by the time Mr. Connally announced—and he was sincere—he got through fighting this problem, you look at it a year later and you are in worse shape than you were before.

I want to know what are your thoughts about some prerogative or affirmative way to assure us that we do move toward a balance rather than a great big deficit we are suffering now.

Mr. Goldfinger. As you know, Senator, we are supporting the Burke-Hartke bill. We feel the Burke-Hartke provides a framework for doing what you and we are interested in.

The Chairman. Well, I think you recognize that you could also do it the way I am talking about, could you not?

Mr. Goldfinger. Well, we would be interested in pursuing that but we think the multinational corporations and the export of technology from the United States by American companies are important factors in this whole problem.

The Chairman. You see, though, that what I am talking about would achieve the same result as far as the balance of trade, would it not?

Mr. Goldfinger. We will take a look at it.

The Chairman. Here is the way I am thinking about it. If you take $14½ billion deficit, that is $14½ billion of goods and services. We are buying more than we are selling. And if you just gave that much of it to American labor, that would translate into a million and a half good jobs averaging $10,000 a job.

Now, would that not be about enough jobs to just about move us from slack employment into full employment in this country?

Mr. Goldfinger. Pretty close, sir.

The Chairman. In other words, you always have to have a certain percentage out of work. About how many jobs do you think we need to move from the slack employment situation we have now as to what you regard as full employment?

Mr. Goldfinger. Oh, I would say about a million and a half, 2 million jobs at this point. As you say, there always are some people who are moving from one job to another who are temporarily unemployed, due to seasonal reasons and other similar factors.

The Chairman. So if you look at the policies which were started back in the days when we had the other guy's interests more at heart than our own and simply turn that thing around and head it back in the other direction, just by achieving a balance of trade is it not fair to say you could move to what would be almost full employment in this country?

Mr. GOLDFINGER. Yes.

The CHAIRMAN. Thanks very much. As I said, I will have to leave and I wanted to ask my questions before you started your presentation. I see now you have a good full attendance here and I want to thank you for trespassing on our chairman and thank you, Chairman Ribicoff.

Senator RIBICOFF. At any time. Our chairman is so knowledgeable I want the advantages of his questions and comments no matter at what point in the proceedings we can get them.

Without objection, I would like to put into the record a provocative report by the Maritime Trades Union of the AFL-CIO entitled "U.S. Multinationals the Dimming of America".*

Mr. Biemiller, you may proceed.

Mr. BIEMILLER. Mr. Chairman, the AFL–CIO welcomes the opportunity to appear before this subcommittee to explore problems related to the operations of multinational corporations. We believe that the unregulated activities of U.S. based multinational firms are a major factor in the worsening position of the U.S. economy in an ever-changing world.

We are convinced that American-based multiational firms export American jobs, export American technology, and export American capital. We do not claim that all of America's trade woes are the fault of the multinational firms, but within the confines of this committee's study, we wish to call attention to the need for legislation to curb the devastating impact these activities have on the American society and the American economy.

This devastation includes:

The shutdown of American production and its reestablishment abroad where foreign markets are served and exports to the United States are manufactured.

The location abroad of facilites for corporate expansion and the production of new products and improved products.

The export of technology by direct transplant, by licensing, by patent agreement and by other methods, thereby eroding the base in which America's industrial society is built, much of it paid for by American taxpayers.

The export of capital to build an industrial base abroad at the expense of U.S. industry, the profits of which are often used to speculate in the world's monetary markets against the U.S. dollar.

These massive operations by American multinational corporations in Taiwan, Mexico, Haiti, Hong Kong, Singapore, Brazil, Europe, Japan and virtually the entire globe are taking a heavy toll among American families and American communities from coast to coast.

The shutdown of manufacturing operations here depresses the American economy by the loss of domestic jobs, the loss of payrolls, the loss of domestic corporation revenues, the loss of local purchasing power, the loss of local taxes and the "ripple out" effect on the local service economy. Hard hit communities face empty factories, slackened business on Main Street, unemployed workers and heavy revenue losses. Meanwhile, the multinational corporation, freed of its American responsibility, issues rosy reports of expanding sales and rising profits and "creation of American jobs."

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*See p. 443.

It is important that Americans understand this major phenomenon of the multinational firm and its impact on America's standard of living, on America's trade balance, its balance of payments, and its industrial future.

Today, thousands of giant firms are supranational entities, each making decisions in its own interests with major consequences in shaping the America of the seventies and the America of the future. These corporations make private decisions for private purposes, but they are as far reaching as major decisions of a political state.

Multinational firms come in all shapes and sizes. They produce, sell, license, and finance operations of magnitudes greater than entire budgets of sovereign nations. They jump national boundaries. They overwhelm international systems of trade and finance. They stagger currencies, they shake governments, and they wipe out whole major industries.

In the United States, multinational firms include America's largest employers, largest defense contractors, largest government contractors, largest manufacturers, largest financial institutions. Multinationals are America's major exporters and importers of products, technology, money and jobs. (Appendix G shows examples of some firms' holdings.)*

Abroad, multinational exports from their foreign operations are larger than all of U.S. exports. The recent Tariff Commission report disclosed that some of the multinational firms' "majority owned affiliates" abroad exported in 1970 to countries other than the United States an estimated $33 billion, compared with exports to the United States of $10 billion and local sales within the foreign country of $118 billion. This total of $43 billion in exports is virtually identical to the 1970 total of all exports from the United States.

But that is not all. The multinational firms' $43 billion worth of exports from their foreign operations in 1970 does not include output from plants partially owned or output from licensees in countries like Japan. Therefore, it is clear that U.S. based multinationals are so massive in operations abroad that they create more exports outside the United States than the United States as a whole is able to export.

These foreign exports—to the United States and to other markets—clearly illustrate why efforts to expand exports from the United States meet increasing competition, not only from foreign firms but also from the U.S. multinationals abroad.

The exports of foreign manufacturing subsidiaries of American companies are more than twice as great as the total volume of manufactured exports from the United States.

Let us examine this phenomenon in more detail. Let us look at U.S. jobs, U.S. technology and U.S. industry in the seventies, as they relate to the multinational firms. Virtually every U.S. industry is affected but we will confine our examination to one single industry—aerospace. Americans have been told that this particular industry is securely ours because it is strong in exports, high in technology and vital to America's national security.

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*See p. 348.

But events in the aerospace industry explain how job and technology exports affect all skill levels—and why reports on trade statistics or foreign direct investment alone fail to cover the whole story of the new interchange in the world of the 1970's.

The aerospace industry, where the United States has held technological supremacy, is steadily being exported abroad. At this moment, for example, an entire missile launching complex—rocket and all—which has the potential for intercontinental missile capability, is being exported to Japan. And here is a picture of that rocket. You can see it is no little plaything that is being exported.

The AFL–CIO has learned that the Thor-Delta launch rocket and its entire missile launch system is now in the process of being sold to the Japanese by the McDonnell Douglas Corp., a multinational firm. Japanese engineers are currently at Vandenberg Air Force Base in California being trained in the development and use of the system. A prototype rocket is being built in nearby Santa Monica. It is expected that upon completion, the system will be set up on an island west of Japan. The Thor-Delta rocket and launch system is considered by space experts to be America's most effective and reliable launching unit. The system is presently used to launch satellites, the most recent being the Earth Resources Technology System.

The Thor-Delta system is capable of carrying several hundred pound objects into space orbit or, with little modification, can carry a nuclear warhead in the 1,500 to 5,000-mile range, clearly a potentially offensive weapon.

The export of the Thor-Delta system to the Japanese means that the capability of satellite and intercontinental missile launching system will no longer be the exclusive property of the United States and the Russians.

For several years the Japanese attempted to develop a system of their own and after its failure made a contract with the multinational McDonnell Douglas Corp. to buy plans and production capability for a modified Thor-Delta rocket system. The basic system was developed at taxpayer expense and cost millions of dollars in research and development funds before it became operational. It has been used to launch satellites for Canada, France, and a multinational weather watcher for seven north European nations. Such launching work has provided the United States with millions of dollars in funds, helping to offset the U.S. balance-of-payments deficit.

This one-time sale, which, of course, benefits the U.S. balance of payments this one time, will adversely affect U.S. balance of payments for years to come.

Workers involved at the Vandenberg base are understandably upset over the transfer because of its many implications for U.S. defense and aerospace capability. They fear that the system is being sold for the exclusive profit of McDonnell Douglas while the Nation loses a basic resource. They point out that the education of highly trained Americans, millions of dollars in U.S. funds, and expensive trial-and-error testing brought about a basic technological system which is now being sold out at a fraction of its worth.

In addition, they fear that putting another nation into direct competition in the satellite-launching business will mean an end to development of further U.S. technology in this area. The sale of America's most sophisticated technology, they feel, will cause highly trained jobless personnel to disperse and be difficult to assemble again, even if further development is considered. In addition to those who work at the launch facility, additional hundreds of workers have been employed in the manufacture of the Delta rocket in California aerospace factories. Involved in the project at the present time are an estimated 1,200 to 2,000 skilled aerospace workers.

Initiative for the Japan-McDonnell Douglas deal was developed at a 1971 meeting in Tokyo between U.S. Cabinet officers and their Japanese counterparts. That meeting, in effect, ratified the negotiations that had been underway for the missile system sale.

Estimates at that time were that the bilateral understanding could mean up to $100 million in profits to U.S. concerns over 4 to 5 years. Of added incentive to the U.S. companies was the agreement by Japan at that time to move ahead on permitting foreign investment by U.S. multinational firms in its automotive industry. Both moves would profit stockholders of the corporations involved at the expense of U.S. aerospace and automobile workers.

Senator Ribicoff. I do not want to interrupt but I would like to get this clear while you are still on this point.

It is your contention that this missile is not being sent there as part of America's defense posture but as a program to allow the Japanese to go into the rocket-launching business and manufacture their own? Is this your contention?

Mr. Biemiller. Or satellite launching.

Senator Ribicoff. Or satellite launching of their own. In other words, they could then be duplicating systems such as this and then selling them around the world.

Mr. Biemiller. This is our contention.

The 1973 Tariff Commission report on multinational firms disclosed that such firms (which would include McDonnell Douglas, even though the Commission did not include aerospace) "dominate the development of new domestic technology. They are also the principal institutions through which technology in its various forms is exported and imported."

Throughout the aerospace industry there are many other illustrations of the export of technology, in what has been this Nation's industry with the largest export of manufactured goods. The long-range implications for U.S. jobs, U.S. technology leadership, U.S. defense, and balance of payments should be ominously clear. There are many other illustrations. For example:

Since 1971, hardware for the Safeguard antimissile system has been assembled in Hong Kong. Under a subcontract for Western Electric, Lockheed Electronics Corp. of Commerce, Calif., is assembling components of the missile system's memory core racks in a Hong Kong factory. The Lockheed plant—only a few miles from Red China—employs 700 workers at $2 per day. The export of work cut several hundred workers from the company's Commerce facility at a time when there was heavy unemployment in the California aerospace industry.

Senator Ribicoff. Do you mind if I interrupt from time to time, because I think it is important to make some of these points as you go along.

What is the average daily wage of American workers doing similar work?

Mr. GOLDFINGER. This would be about $4 an hour or more.

Mr. BIEMILLER. More.

Senator RIBICOFF. $4 an hour or more.

Mr. GOLDFINGER. $4 to $5 and more.

Senator RIBICOFF. As against $2 a day.

Mr. GOLDFINGER. $2 a day.

Mr. BIEMILLER. In military aircraft, too, American industrial leadership is being rapidly sold off and exported abroad. McDonnell Douglas has licensed Mitsubishi of Japan to build 91 F–4 fighter planes, the famous Phantom fighter. After building two prototypes in St. Louis, the company made a contract with the Japanese to furnish the blueprints, the technology and, where necessary, technicians to build the other 91 F–4's in Japan. The result is a heavy loss of employment among highly trained U.S. aircraft technicians, the loss of paychecks to St. Louis, the loss of an export industry and the transfer of a total military production facility to another nation. The potential for balance of trade was considerable.

Also in military aircraft, the Northrop Corp. is reported in the press as about to license the production of the American F–5E fighter plane in Taiwan. Currently all Nationalist Chinese military aircraft are bought in the United States. One U.S. official, commenting on the deal, regarded it solely in military terms: "Whether we manufacture the planes here and sell them to Taiwan, or let it manufacture them should not make all that much difference." In economic terms, the impact is far greater. Not only will Taiwan manufacture the planes for its own use and thus cost Americans their jobs, but Taiwan is expected to export its manufacture of F–5E aircraft to other nations, thus cutting further into U.S. exports and balance-of-payment receipts among other nations buying U.S.-made aircraft.

Senator HANSEN. Mr. Chairman, if Mr. Biemiller would permit an interruption, let me say that I regret very much that I am going to have to be going to another committee meeting and if he would be kind enough, I would like to request the right to submit some questions in writing.

I am very singularly struck by your testimony and I would like to explore further with you, if I may, some questions that may occur to me as I read your testimony.

Mr. BIEMILLER. We would be very happy to answer such questions.

Senator RIBICOFF. Without objection.

[Senator Hansen's questions and the replies of Mr. Biemiller follow:]

Question. Can you identify the U.S. industries which you feel have been particularly hard-hit by the "runaway plant" problem? What are your estimates of U.S. employment lost in these industries due to the movement of production abroad?

Answer. The AFL–CIO statement before the subcommittee presented evidence of many industries and parts of industries in which many kinds of jobs, at various skill levels, had been lost. The AFL–CIO does not have access to the more extensive information which business and government should have provided in detail to determine the complete answer to the question. The AFL–CIO has consistently sought better reporting of such information. The government has responsibility to provide the information, but as the statement indicates, this responsibility has not been met.

Question. Many labor organizations outside the United States have cooperative, international programs to obtain fair labor standards from the MNC's. Please describe the nature and extent of your organization's cooperation and participation in these attempts.

Answer. Where nations have laws on fair labor standards, unions in various countries support improvements. Unions are not allowed to exist in many countries, and where they exist, anti-union efforts persist, even in the United States. Multinational firms are subject to the laws of the countries where they invest. The AFL–CIO has supported a better Fair Labor Standards Act for many years, usually opposed by those who oppose unions and who defend activities of multinational firms.

The AFL was a prime mover in the creation of the ILO in the early part of the 20th century. The AFL and the AFL–CIO representatives have continued to work with the ILO in recent years on problems of labor standards and workers' rights. The AFL and the AFL–CIO have also supported the development of international fair labor standards in world trade. But, as the February 1973 AFL–CIO Executive Council statement indicated, "There are, as yet, not even any beginnings in this area." In addition, the AFL–CIO works with unions in Asia, Africa, and Latin America on problems affecting both the need for and development of free trade unions, including efforts of unions to bargain better wages and working conditions. AFL–CIO representatives have participated in meetings of the organizations of unions from the U.S. and European countries to discuss common problems—including the fact that no unions exist—often by law—in many countries where labor standards are low. In many countries, the unions are so weak that the postponement of action by the U.S. to slow the inrush of imports from abroad merely inhibits improvement of fair labor standards in the U.S. and the development of fair labor standards in foreign countries.

Question. Please comment on the extent to which you approve or disapprove of direct investment in the U.S. by foreign-owned manufacturing firms. Would you favor legislation that would encourage such investment in the U.S.? If not, why not?

Answer. The AFL–CIO has no policy on direct investments in the U.S. by foreign owned manufacturing firms.

Question. How high do you rate foreign tariff and trade barriers as reasons for setting up (or shifting) production abroad?

Answer. The AFL–CIO has no scale of reasons for shifting production abroad. The Chamber of Commerce and the Emergency Committee for American Trade and other business organizations give the existence of foreign barriers high priority. However, these same groups say that the erection of any barriers here would cost U.S. investment and employment. The logic of their case is not clear. On Monday, March 12, 1973, the *Electronic News* stated that "Multinational companies—supposedly avid free traders—often become protectionists overseas where they have plants flourishing behind foreign trade barriers." The article also states that, "Unfortunately, some leading State Department officials say, multinational officials overseas tend to take on the trade prejudices of the countries in which they are located. This becomes especially true with the growing trend of multinationals to hire foreign citizens to head plants in their countries." Thus the foreign barriers become both a sword and shield against the U.S. interest, as the statement to this subcommittee explains.

Question. Your statement seems to destroy the position that America's "high technology" industries are so superior to those of foreign nations that we can afford to rely on "high technology" industries for future trade surpluses and job creation.

(1) Do you have any figures on what has happened to employment in "high technology" industries over the past 5 years;

(2) Do you feel that the people who are displaced in the aerospace industry can be easily absorbed into other manufacturing jobs;

(3) Do you feel our import problems are restricted to a few "labor intensive" industries like textiles or steel, or are more widespread?

Answer. One of the reasons for the need for a change in U.S. policy is the internationalization of technology, an accelerating change in recent years. The AFL–CIO has expressed this view for many years. The figures in table IV suggest the failure of "high technology" industries, an unclear term, to provide enough new job opportunities. The statement shows that other manufacturing and service jobs are not readily available for displaced workers in manufacturing industries of any kind, including aerospace. Therefore it is clear that import problems are no longer restricted to "a few 'labor intensive industries' like textiles and steel."

Question. The main opposition to "Hartke-Burke" appears to be based on the contention that foreign governments would not stand idly by while their products were made subject to wide-ranging import quotas.

(1) Do you feel the threat of "retaliation" is real?

(2) Don't you think our multinational corporations with plants in Europe would be the first to feed the brunt of retaliation?

(3) Are there any alternatives to "Hartke-Burke" as far as import quotas are concerned?

Answer. The objection to any proposal for changing U.S. trade and tariff laws is the threat of "retaliation." The statement to the subcommittee shows that other countires have increasingly added barriers without "retaliation" by the United States. Surely they would not want to start a trade war, since the U.S. has helped them for so long. Appendix I of the statement to the subcommittee shows regulations of some other nations regarding trade, production, exports and technology—without "retaliation" from the United States. The multinational corporations in Europe say that they are the largest exporters from some of those countries. It is unlikely that the countries of Europe would act to harm their own trade benefits by starting a trade war with the U.S. There have been no proposals for constructive alternatives to Burke-Hartke's import quotas offered in the past two years, since the bill was first introduced. Only emotional, factually undocumented propaganda and vague theories about quotas have been offered against quota proposals of any kind. None of the people who claim expertise, whether government or business, has suggested workable alternatives.

Question. Do you think American companies have been saps to sell the Japanese their technology for a royalty payment?

If the Japanese ever let American companies invest freely in that market, what do you think will happen to our trade position?

Answer. American companies may have misjudged the overall impact of their short-term profit gain from licensing, though it is understandable that they would follow what appears to be a short-term business advantage. But free invesment in the Japanese market would merely increase the trade deficit with Japan, as it has with some other countries because foreign barriers to trade are part-and-parcel of foreign countries' national cultures and economic and social policy.

Question. When people tell us we are becoming a "service" economy, what does that mean—laundromats, cheeseburger stands, etc.,—can you describe what are the main "service" jobs they are talking about?

How would you compare the average pay in, say, an automobile plant with a "service" job?

Answer. It is not clear what those who are talking about a "service" economy mean. The first jobs to be exported in mass from the U.S. after World War II were seamen's jobs, which are service jobs. Those who talk about a service economy make no distinction between the technical term "services" and the non-production job, which is a service job. As the statement to the subcommittee shows, all kinds of jobs have been exported, including service jobs. Some service jobs would include the hospital service jobs, data processing jobs, etc. They also include engineering jobs. Many have been and are being exported. These are often minimum wage jobs—providing about $1.60 an hour. The average pay in auto plants is $5 an hour, but this probably includes some non-production and maintenance (and therefore "service") jobs.

Question. Many corporate witnesses have stated that they don't invest abroad by chance but by necessity. They say foreign governments put obstacles to the import of American products and the have to invest within a market in order to sell in that market.

Do you think there is any validity at all to their contention?

What do you think would happen to U.S. exports if they were prevented from investing abroad or if we taxed away their investments?

Answer. The judgment of an international manager, according to Harvard economist Raymond Vernon, author of many studies on multinational firms, is not always accurate or rational. Vernon stated in 1966 in the *Quarterly Journal of Economics*, that "a threat to the status quo is a powerful galvanizing force for international investment." In fact, the states that "threat in general is a more reliable stimulus to action than opportunity is likely to be." Thus the businessmen are undoubtedly stating what they believe to be the case. Obviously they are not omniscient. However, the question leads to the purpose of law and legislative efforts: to have the U.S. government have policies, just as other governments do. Otherwise, the businessman will continue to face the difficult problem of adapting to what he believes to be a threat to his business caused by a foreign government's actions. The U.S. government has a responsibility here and needs new policies. That is the basis for Burke-Hartke. If the U.S. firms were prevented from investing abroad, U.S. exports might increase unless the firms licensed production abroad. However, there are no proposals to prevent all foreign investments or to tax away foreign investments in the Burke-Hartke bill. Regulation is not prohibition. Taxation is not destruction.

Question. Would you advocate the extension of meaningful adjustment assistance programs to cover persons injured—in one way or another—by multinational business? Why?

Answer. Adjustment assistance is not an alternative to actions to provide a comprehensive policy to improve the U.S. condition in the world economy, because the scope of the problem is too vast to depend on what, at best, is a small part of an overall program.

Question. It has been observed that in countries—such as Japan—which have restricted inflows of direct investment, U.S. firms have tended to increase their economic penetration via licensing and other non-direct arrangements. How do you evaluate the effects on U.S. labor of such operations, in comparison with the effects of direct investment ventures?

Answer. Economic pentration via licensing occurs in most countries of the world, because other countries have regulations which encourage the inflow of technology. There are no clear data available to the public on licensing by U.S. firms in Japan. There are no data available to give a realistic comparison of the two. But firms do not usually use alternative methods, but rather conduct both licensing and foreign direct investment—even in Japan, where many U.S. firms have had direct investment for a long time.

Question. Do you think that the causes of declining U.S. competitiveness in world trade and of rising foreign production by U.S. firms are the same? If so—or if not—what, in your judgment, are the primary causes of both phenomena?

Answer. The deterioration of the position in the United States in the world economy stems from the changes which have taken place since World War II, accelerating in the 1960s and early 1970s without government action. These include the rise of managed economies, the internationalization of technology, the rise of U.S. investment abroad, the spread of U.S.-based multinational corporations. While the rise of foreign production by U.S. firms is part of this problem, it is not the sole cause of the problem, nor is the reverse the case, as the AFL–CIO statement to the subcommittee indicated.

Question. On page 3 of your testimony you mention that $10 billion of products manufactured by U.S. companies abroad in 1970 were exported to the United States. Another $33 billion were exported to other countries by the multinational firms. This means that of the $43 billion manufactured by multinationals abroad, approximately 23% returns to the U.S. to compete with local products.

However, a 1970 Commerce Department study quoted by Peter Flanigan indicates that about 70% of the products manufactured abroad by multinational corporations remains abroad to compete in foreign markets with an additional 23% exported to third countries and only 7% returning to compete in U.S. markets. Would you please explain this discrepancy in figures?

Answer. The Tariff Commission estimated the trade figures, but they do not indicate that 23% of production returns to the U.S. The figures show that 23% of the exports of multinationals from abroad return to the U.S. to compete with local products, because the figures cited are only trade figures, not production figures. The Tariff Commission estimated that $118 billion was produced within the foreign markets. However, neither the Tariff Commission nor the Commerce Department has provided accurate data on multinationals as the statement to the subcommittee indicated.

Question. Mr. Gilbert Jones testified on behalf of IBM World Trade Corporation. He made the statement that U.S. workers are much more productive than foreign workers and provided the following example: IBM typewriters are manufactured in Lexington, Kentucky, for the U.S. market and in Amsterdam for the foreign market. Wages are approximately ⅓ less in Amsterdam than they are in Kentucky. However, the finished typewriter from Kentucky costs less than the finished typewriter from Amsterdam due to this productivity factor. Several other witnesses also expressed their belief that U.S. workers are so much more productive than foreign workers that there is a competitive advantage to employing U.S. workers. Would you please comment as to whether or not you believe U.S. workers to be more productive than foreign workers.

Answer. As Professor Peggy Musgrave explained in her paper before the Joint Economic Committee, "It should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and export. The principal difference lies in the effects on labor productivity and shares in national income."

Business Week, September 9, 1972, states "Despite all the rhetoric, the American worker today produces $100 worth of goods while his German counterpart is producing $74 worth and a Japanese is producing $56. Nor did lagging productivity cause the inflation that began in the mid-1960s and still continues. Rather it was the inflation that caused the lag in productivity—by generating a boom and recession business cycle. Productivity always slows down in the late stages of a boom, and it drops preciptiously when the economy goes into a slump . . ."

Thus the American worker is productive; he should not be blamed for productivity lags caused by other economic factors.

Senator RIBICOFF. Mr. Biemiller, is my memory correct that this is the first time that there has been publicly disclosed the facts that you are now presenting to us?

Mr. BIEMILLER. In the public press generally. Some of this material has appeared in the Machinists Union publication.

Senator RIBICOFF. But in a general—I do not recall reading all of these facts.

Mr. BIEMILLER. And the F-104, which we are coming to. is to be found in a report of the National Bureau of Economic Research, is it not?

Mr. GOLDFINGER. Yes; that one which appears later, several paragraphs down, appeared in a study published by the National Bureau of Economic Research, edited by Prof. Raymond Vernon of Harvard University.

Senator RIBICOFF. What you are now presenting, Mr. Biemiller, is so important from a public policy standpoint that it involves a more than just the questions of our declining trade balance and the impact of multinationals. It would seem to me that our Armed Services Committee, which I believe Senator Bentsen is a member of—you are still a member of the Armed Services Committee?

Senator BENTSEN. I was.

Senator RIBICOFF. Well, I would suggest that our staff turn this testimony over to the chairman of the Armed Services Committee. It certainly is something that should be brought to his attention. I feel, too, that Secretary of Defense Richardson should also appear before this committee to answer this testimony. It is very provocative and revealing.

You may continue.

Senator MONDALE. Would the Senator yield?

Senator RIBICOFF. I would be pleased to

Senator MONDALE. In addition to the defense implications of this, I think it is correct to say—I am not sure but I believe it is—in each of these instances there are tremendous public investments——

Mr. GOLDFINGER. Precisely.

Senator MONDALE (continuing). In the development of these fighters and missiles which apparently those companies are profiting from by selling technology to another country, and I am wondering if there are any restrictions or any approval required by our Government when publicly financed technology is exported abroad for the benefit of a private company, both from the standpoint of this Nation's defense but also because there is a great deal of public money in this that will otherwise go into private hands.

Senator RIBICOFF. I think Mr. Best of our staff should research Senator Mondale's query to see what the legislative basis for this is.

Senator FANNIN. Mr. Chairman, I think that we have to consider individual cases as far as these reports are concerned. In some instances we have been working with Japan on having them take over a greater and greater responsibility. We have been pushing them to do so. So I think that there is an explanation to some of the items that have been mentioned by Mr. Biemiller.

I have been vitally concerned over what has been happening as far as our export of jobs as he has referred to it and I have been very concerned over the imports that are coming in such as autos. But I think in its overall I think we are bringing out something that should be investigated on the basis of each individual transaction. I do not think that we can make a condemnation until we have the full facts.

Senator RIBICOFF. Well, I think that is why there should be an explanation, but I think the thrust of Mr. Biemiller's testimony which I find most provocative outside of the military, that we have been under the illusion over the past few years that the high technology exports are the saving grace of America and that we must continue our efforts to build up high technology industry to help our balance of payments.

I believe what Mr. Biemiller is pointing out to us is that we have lost ground in low technology, we are way behind, and we are about—and that we are in the process, now in the process, of exporting our high technology, business and surplus, which would be a total economic disaster for our nation if we lose our high technology, because in 1971 I believe our high technology trade balance was in the sum of some $9 billion, but what Mr. Biemiller is pointing out in his testimony, we are in the process of disintegrating and giving that away.

So in addition to our overall loss of $7 billion in manufacturing trade balance, adverse, we might end up with $16 or $17 billion.

I believe this is the thrust of your testimony.

Mr. BIEMILLER. Quite correct.

Senator RIBICOFF. All our testimony in the past has been in the low technology fields, textiles, shoes, where you have mass unemployment developing from loss of trade and this is the first time I have seen anything, Mr. Biemiller, and I want to commend you for a real public service in bringing these factors to the fore.

Senator BENTSEN. Mr. Chairman, I did serve on the Research and Development Subcommittee of Armed Services and Mr. Biemiller is making a very salient and very important point because we are talking about substantial sums of taxpayers' money. In the last fiscal year we expended approximately $8 billion in research and development, and for the forthcoming year—the administration has requested approximately $8.6 billion in research and development on military hardware. If this is a trend that we extrapolate into the future, it will create some very serious problems for us in this country in high technology jobs.

Mr. GOLDFINGER. There is an additional factor here, that this advanced military technology has vast potential for civilian technology spinoffs, and by turning over this kind of technology, we are turning over not merely defense capabilities but we are turning over the sophisticated technology developed by American taxpayers for civilian use of all kinds that we cannot even imagine at this point.

Senator BENTSEN. Mr. Goldfinger makes another excellent point because in the committee report on research and development on the development of the STOL aircraft I had written into the report, and I was questioning the Defense Department figures on it last week, a requirement that those funds be used to try to develop a commonality of objectives and seeing that the aircraft that was developed for the military, could also be used for civilian usage and for an export market. We know that you have a consortium of companies in Europe today that are trying to develop just such an aircraft.

Senator RIBICOFF. Well, it becomes very obvious that before we go into any trade legislation, and perhaps even as part of these hearings, the staff should try to arrange with Secretary Richardson to come before this committee for a detailed explanation of the points raised by Mr. Biemiller.

Mr. BIEMILLER. Ironically, Taiwan is doing very well in terms of its trade with the United States. In 1972, the United States exported $630 million in goods to that nation. During the same period, the United States imported a torrent of TV sets, electronic equipment and other products for a total of $1.3 billion, mostly produced by U.S. multinational firms. Thus, with the F–5E export and job loss here, America's very heavy trade deficit with Taiwan will become worse.

Earlier, the F–104 Starfighter followed the same export route. When Japan wanted the F–104 Starfighter, then built by Lockheed in California, it arranged to have it built in Japan. Lockheed not only shipped over the designs, tools, and equipment, but supplied the supervision needed to train the Japanese workers. Now, of course, Japan has the technology as well as the plans.

The same is true in Italy where the Italian Air Force, which currently has 165 F–104 aircraft, now plans to manufacture the plane in Turin.

Technology in the engine for the B–1 bomber also nearly became an export but was halted only because it contained military secrets. General Electric and SNECMA, France's state-owned aircraft engine maker, arranged to build a "quiet engine" for airliners. Under the deal, the French would lend half of the $500 million needed and GE would supply much of the technology. The deal was vetoed by the State and Defense Departments on the ground that GE's technology sale involved disclosing a U.S. military secret: the core of the F–101 engine it has developed for the new B–1 bomber. At last reports, the companies were trying to get around the problem. The production, of course, and all the technology, would move to France. U.S. workers would be squeezed out of the project.

In commercial aircraft, the export of U.S. superiority is also accelerating.

Recently, the Boeing Co. entered into an agreement with the Japanese Government to develop a new wide-bodied airbus. Technology for the short haul airliner will come from Seattle; the work will be done in Japan by employees of three manufacturers—Mitsubishi, Kawasaki, and Fuji.

Boeing has also entered into a joint arrangement with Aeritalia of Italy to build the 7X7 airbus, with part of the production to take place in Italy. When the agreement was made, Boeing President Malcolm Stamper declared: "They have got the money and we have got the smarts."

At the same time, United Aircraft is helping Mitsubishi produce gas turbine aircraft engines. The technology comes from East Hartford, Conn., an area with very heavy unemployment.

It is no secret in Seattle that 200 Italians are being trained there by Boeing. Eventually, they will go home to tool up an Italian aircraft plant to produce short takeoff and landing aircraft (STOL) for the European market. Until now, Boeing planes sold to European airlines have always come from Seattle.

America's largest manufacturer of private aircraft, Cessna of Wichita, Kans., is working with Rheims Aviation of France. Of the 500 Cessnas expected to be sold in Europe this year, three-fourths will be built in France under a license agreement. This arrangement benefits Cessna stockholders but not Cessna's American workers. Cessna's transfer of production abroad is not limited to France. It is producing planes in Argentina, as is Piper, which is building 150 executive and crop-dusting planes per year in that country.

Other commercial and military exports—with resultant job losses—are the production in Japan of the Sikorsky S–61 helicopter and the Pratt & Whitney JT8D turbofan engine for the C–1 U.S. military transport.

The implications of this ever-accelerating selloff of American technology and the export of aerospace jobs is not only obvious to the workers involved, it has also aroused the concern of specialists in the field.

Dr. Harvey Taufen of the Hercules Corp. recently reported that Japan has paid about $90 million per year or $1 per capita "to get all the results of all the successful, proven technology in the world." As a result, Taufen says, "Japan's shopping has brought it one of the most incredible bargains in the world."

Supporting the Taufen claim, Nathaniel Brenner, marketing director for Coates & Walter Instrument Corp., stated in Chemical and Engineering News last year:

> Technology is not an aesthetic pursuit like music or poetry, but rather a commodity of commercial value, with an investment cost that can be measured, a dollar value that can be computed and a clear market advantage for those who have it versus those who do not . . .
>
> The product of this investment, like the product of the oil well or the factory, cannot be given away to foreign countries, by multinational corporations or any other channel, without a clear, measured quid pro quo or the United States will suffer exactly what a corporation suffers that sells below cost for an extended period—bankruptcy . . .
>
> Anyone who is naive enough to believe that the Japanese or British Governments permit foreigners to license their processes as freely as the U.S. does ours has simply never tried to negotiate these transactions.

This is the sad story of the export of the U.S. aerospace industry. We have dwelt on this area in detail because it is a shocking account of the massive destruction being dealt to one of America's most advanced industries in terms of technology, highly skilled personnel and national security. Translates the losses being suffered in aerospace into all the other industries in America in terms of thousands of jobs and loss of technology and you can begin to comprehend the massive change that is overwhelming this country. No government or business studies include these facts.

There is also a further devastating effect. The recent devaluation—as the one in 1971—resulted from an international monetary crisis, with a run on the U.S. dollar. There is a direct relationship to the growth of the U.S. multinational firms abroad and the monetary crisis. American corporations and multinational banks have huge and increasing investments in foreign countries and they keep their American dollars there to expand their foreign holdings and often to avoid paying U.S. taxes on their foreign earned profits. There are now about $60 billion American dollars in Europe and about $20 billion American dollars in Japan. Only a fraction of these billions, moved with ease beyond the reach of central banks of governments, can cause serious monetary problems. By these currency actions, U.S. corporations and banks put profits ahead of patrotism, selling their country's currency in order to make swift profits for themselves.

It is against this background of multinational corporations acting in their own interests, for their own profits, that American working people and American businessmen and the American industrial system are being asked to perform a mission impossible.

Americans are told to seek jobs and help themselves. But their jobs are exported to other nations where multinational firms compete by producing within their nations and exporting from those nations to any part of the world their management chooses.

Americans are asked to improve productivity at home and keep labor costs down and expand exports from the United States. But the multinational firms expand their operations in other nations, often without regard to productivity or labor costs at home. The effect erodes U.S. exports and creates competition against U.S. exports to foreign countries. The firms also send imports into the United States from those countries.

Americans are asked to reduce trade barriers for expanded U.S. trade, but multinational firms use foreign trade barriers as a sword and a shield against U.S. trade expansion.

Americans are asked to understand that other nations have the right to curb U.S. investment in their country to regulate the output of that investment in their country and to require U.S. firms to export from the foreign country. But if Americans suggest curbs for trade and investment they are told they would provoke a trade war. Meanwhile, other countries issue new regulations and erect new barriers at an increasing rate.

Americans are asked to pay taxes to help develop new technology for America's economic strength. But multinational firms are the largest exporters of that technology to other lands, where foreign nations regulate inflows of technology and its outflows.

Americans are asked to give tax breaks to U.S. firms to encourage them to stay at home and export. But the multinationals can and do take advantage of the tax breaks at home and abroad and still go abroad without expanding U.S. exports.

Americans are told to help improve the trade balance to strengthen the dollar and not adopt effective capital controls, but the nations of the world have regulated capital in increasing numbers. The multinationals meanwhile, have more liquid assets available to speculate against the dollar than the world reserves available to governments.

The total effect of these conflicting objectives adds up to one well-known American labor term—"unfair".

EXPORT OF JOBS

The export of jobs is a fact for millions of Americans. Garment workers and aerospace workers, steelworkers and machinists, shoeworkers and glassworkers, chemical workers and electronics technicians, seafarers and stagehands, serviceworkers and engineers, salesmen and teachers—all types of American workers have been affected. From the Mexican border to Singapore, from Haiti to Hong Kong, from Brazil to Yugoslavia, U.S. based multinationals enjoy the advantage of U.S. tariff provisions, trade and tax laws which aid and abet these transfers. The companies also use foreign laws to expand abroad and then claim U.S. jobs grow from the trickle-down effect.

The Tariff Commission reported to this committee:

> The multinational firms are neither minor employers nor a special case which can be analyzed independently of the national economy. They are the backbone of the demand side of the labor market, the firms which . . . have the biggest quantitative punch in terms of the numbers of people they hire . . .

The Tariff Commission did not try to analyze job exports, but made some assumptions and provided some estimates. The report shows that two out of three possible assumptions would lead to the conclusion that between 400,000 and 1.3 million job opportunities were lost to America because of investment and trade changes in which the firms' activities were a factor.

No Government survey of the overall impact of multinational firms has ever been attempted. Only foreign direct investments of some firms have been surveyed in part. These studies do not include all imports of the firms, licensing arrangements or other factors that affect the interchange. But they credit U.S. job expansion—from whatever cause—as the "proof" that benefits accrue to the U.S. economy.

But American job losses are not a theoretical problem. They are a fact.

Government reports show that U.S. firms spent in direct investment in manufacturing alone more every year between 1960 and 1972—starting with $1.4 billion in 1960 and rising to $6.9 billion in 1972—see table I—it was during this period that the United States lost its gains in trade—with imports, particularly of manufactured goods, rising much more than exports of manufactured goods.

During this period, direct investment expanded rapidly in other countries of the world in the manufacturing industries in which the U.S. trade position worsened—see table II. The multinational firms contributed to the economic strength of other nations and their exports to the United States. This has resulted in massive losses of U.S. jobs and job opportunities in many kinds of manufacturing, as well as service and other jobs related to manufacturing.

Even a Commerce Department study showed a part of this picture.

Findings from the Commerce Department's "Special Survey of U.S. Multinational Companies, 1970," published in November 1972, reported on 298 U.S. firms with foreign affiliates. In manufacturing industries from 1966 to 1970, the report showed: 60.7 percent rise in manufacturing sales of the foreign subsidiaries; 52.9 percent rise in manufacturing sales within country of location; 77.5 percent in manufacturing sales to other countries, excluding the United States; 129.4 percent rise in manufacturing sales back to the United States.

In 1970, about one-third, 33 percent, of their foreign sales came back to the United States up from 27.6 percent in 1966.

Employment figures in the report showed manufacturing jobs in these 298 firms' U.S. facilities rose 7.6 percent, while they increased 26.5 percent in their foreign subsidiaries, a rise of 450,000 jobs at home and 452,000 abroad. This development took place when U.S. employment needs were greater than before—from defense cutbacks, returning GI's, adjustment to soaring imports, and a growing labor force.

Government studies of direct investment do not point out that the industries in which direct investment has expanded rapidly are often the industries in which U.S. jobs have declined in actual and absolute numbers. The Commerce Department surveys merely highlight jobs within some reportedly U.S. multinationals. They do not record actual overall job losses in the United States often affected by the multinationals' competition with smaller firms at home and abroad.

Senator Ribicoff. May I interrupt again, Mr. Biemiller. Mr. Flenigan and Mr. Dent appeared before us last week. Do you think that they had all this material at the time of their testimony?

Mr. Goldfinger. Well, I do not know what they had in front of them. You know, it was certainly available to them, Mr. Chairman. They certainly should have available much more detailed information than we have. We have a small staff that attempts to work on these problems and they have the vast resources of the U.S. Government behind them.

Senator Ribicoff. I believe the substance of their testimony was that the multinationals created a net increase of jobs in this country and also contributed positively to our balance of trade.

Mr. Goldfinger. Well, Mr. Chairman, maybe they believe that. If they believe it, they are blind to the facts.

Senator Ribicoff. Your statement today is so provocative that I do not think that we should wait until the printed record of the hearings is complete. I am going to put your statement in the Congressional Record today with some introductory comments in the hope that our colleagues would read it. I also trust that the members in the executive branch would feel a sense of responsibility to reply because I think you have really joined an important issue here, Mr. Biemiller. Everyone on this committee is going to have to deal with very knotty and tough problems when the trade bill comes up. Our colleague, Mr. Hartke, has his bill which the AFL–CIO is supporting, and I would hope that when you are through you would comment on the proposed changes in the Burke-Hartke bill that I read about in the paper the other day. I believe Senator Hartke went out to Arizona and said he was considering changes in some of his provisions.

I am glad you are here because I would like some explanation of it.

I also read in the press that the President of the United States met with Mr. Meany concerning the trade bill. Everything seemed to be sweetness and light. Of course, you have the right to claim executive privilege regarding that conversation between the President and Mr.

Meany. Without a doubt there are many different factors that we will have to study the trade bill finally comes over, and these hearings are an opportunity for us to get a better understanding of some of these problems, Mr. Biemiller.

Senator FANNIN. Mr. Chairman, I do feel that in fairness to everyone involved, that we have had testimony from others that would dispute the testimony we have had today from Mr. Biemiller. I think we have to look for facts. I am very anxious to do so. I know that some of the information that is given is something we have known about for years and we have known about developments over the months. There is not a lot stated by Mr. Biemiller that was a total surprise to me but I do feel that some of the figures that have been given are certainly in controversy with the figures that were given to us previously by responsible witnesses.

So I think that sometimes figures are twisted around to coincide with the desire of a person to make his position and I will have some questions, but I think it is very unfair to condemn everyone else and say these witnesses are all correct.

Senator RIBICOFF. I am not condemning anyone. I am going to ask Mr. Best to send a copy of Mr. Biemiller's testimony to both Mr. Dent and Mr. Flanigan to give them an opportunity to refute the facts and the statistics presented. Their responses will go into the record immediately subsequent to Mr. Biemiller's testimony.

Senator FANNIN. I commend you, Mr. Chairman, for doing that.

Mr. BIEMILLER. Mr. Chairman, we certainly hope this committee will continue its present study and the more exhaustive you can make the study, the happier we will be. We are convinced we are right.

Senator RIBICOFF. It is important to go into this deeply. It is of grave importance. For instance, you can pick up the morning paper and find that as the currencies float, the European countries that have previously been the recipient of American dollars now want to take advantage of the American dollar in its weakness. They are telling the United States to support the weak American dollar when they hold about $80 billion, as you have pointed out, $60 billion in Europe and $20 billion in Japan. There are a total of $268 billion in assets that all the multinational banks and corporations own. This is an increasingly serious problem, especially as the world seems to be entering into a period of where economic power is more crucial than geopolitical power. The United States is not very well equipped to undertake this kind of competition particularly as the dollar keeps declining relatively to other currencies.

This is one reason why we have undertaken this inquiry with great seriousness and without reaching any conclusions beforehand. We are trying to get the facts and that is why your contribution is a valuable one.

Mr. BIEMILLER. In major industries at home, in which the multinationals are key factors, U.S. Labor Department figures show substantial job losses between 1966 and 1972. These industries include transportation equipment, electrical equipment, nonelectrical machinery. In transport equipment, the loss was 170,900; nonelectric machinery, 45,800; and electrical equipment, 75,700. That is a net loss of job opportunities in three of the key industries in which foreign direct investment is reported. Only in chemical and allied products did jobs in the United States increase by 40,000. (See tables III and IV).

No matter how small the breakdown, or how large the overall figures, American jobs have been lost.

As the largest employers and producers in this Nation, the claim of the multinationals that it would have been worse if they had not gone abroad makes one wonder how much worse it could have been. These firms have taken credit for and are still receiving benefits from all the growth and market size of the U.S. economy, from Government spending and contracting, from the efforts of the Government to spur the U.S. economy.

Since 1963, the AFL–CIO has emphasized its concern for the multinational problem. We seek regulation, not destruction. We seek fair trade, not less trade. We seek recognition of new reality, not old slogans for new problems.

We seek understanding of the 1970's, not cliches from 1929. We seek U.S. Government policy in the interests of the people of the United States, not the private foreign policy of the multinationals.

THE HARTKE-BURKE BILL

The Foreign Trade and Investment Act of 1973 is a positive policy that puts the U.S. interest first. The Hartke-Burke bill revamps U.S. foreign trade, tax and investment laws to overcome growing problems of the export of American jobs, trade imbalances and an increasingly distorted U.S. economy. It is a bill to assure a healthy, growing industrialized America—providing jobs for its millions of citizens in modern industry in a changing world. It assures American taxpayers, consumers, workers, and businessmen a fair set of laws for their country so that America can cooperate with other nations for the mutual benefit of all.

The world is still a world of nation-states. International action, in the future, will require policies of national governments. And, at present, there is the need for U.S. Government policies to deal with the realities of the world economy, which are drastically different from the 1930's or even the 1950's. The Foreign Trade and Investment Act of 1973 is an effort to provide a framework for dealing, specifically, with the causes of America's deteriorating position in international economic relationships.

The Hartke-Burke bill would provide Government regulation and restraint of the export of American technology and capital—regulation not elimination. It would remove the tax subsidies and other incentives that encourage U.S. companies to establish foreign subsidiary operations.

It would also set up a "sliding-door" limitation on most imports, except on those goods that are not produced here or that are in short supply—a "sliding-door" limitation, not a high wall to block out imports. Quotas would be related to the level of American production. In fact, imports would be guaranteed a share of the American market and would be permitted to increase as American production increases. But imports would not be permitted to flood American markets and quickly wipe out American industries.

President George Meany has sumarized the AFL–CIO position in these words:

> We of the AFL–CIO seek a strong and growing American economy that is an integral part of the world economy. We are not isolationists and have no in-

tention of becoming isolationists. We are convinced that the practical alternative to senseless isolationism is the adoption of realistic government policies to meet America's needs in the world economy of the 1970's.

We know that a depressed American economy would not merely depress the condition of American workers and American business. It would also depress the economies of the rest of the world.

A prosperous America is essential for the prosperity of the nations with whom we have continuing economic relationships. One of the things that is needed for a prosperous America is updated, modernized policies to deal with the realities of international trade and investment.

Senator RIBICOFF. Thank you, Mr. Biemiller. You have offered very valuable testimony. A real national debate will have to take place on the entire problem of our balance of payments and international trade deficits.

I have recommended in my most recent report to the Finance Committee, "A Strategy for International Trade Negotiations," that as we enter into the forthcoming GATT negotiations in September that the American negotiating team should include representatives of labor, industry, agriculture, and the Congress.

May I have your reaction to that? Would labor look forward to being part of that negotiating team?

Mr. BIEMILLER. We have participated in the past and would certainly participate in future negotiations.

Senator RIBICOFF. But in the past your role was mostly in an advisory capacity. You were not part of the delegation itself; is that not true?

Mr. BIEMILLEER. That is true, but we met with the delegation and to that extent did participate in the discussions. I have twice been there myself, for example, on GATT negotiations.

Senator RIBICOFF. You make much of the Hartke-Burke bill which has been under widespread attack, as you know. I read recently that Senator Hartke suggested substitution of safeguards for import quotas, and continuation of the foreign tax credit instead of removing it. Before asking you, do I misstate what Senator Hartke said—I would not want to misstate the press account of what you said.

Senator HARTKE. First, let me commend the chairman for saying he wants to put this statement in the record. I think it is an excellent statement of some of the facts and figures that are necessary.

In regard to the statement I made concerning any modification of the bill itself, I said that I was not interested in confrontation. I was trying to find an area of understanding.

The multinationals, generally speaking, find their greatest deal of difficulty not with the quota section of the bill. The multinationals, I think, would be quite content if the tax sections were removed. They would be happy.

Now, in order to try to come to some understanding and review, I indicated I was willing to have some type of discussion, especially on the question of retaining the foreign tax credit.

But I do not feel that we can continue to do two things. One, we cannot continue to neglect the balance-of-trade deficit and the balance-of-payments deficit. Second, I do not believe we can continue to subsidize, to the extent of over $4 billion, the multinational corporations to the detriment of our domestic corporations.

I say very simply, forgetting the—not forgetting but if you were to adopt the original Hartke-Burke bill, you could have a corporate tax reduction of something in the neighborhood of 10 percent.

Senator RIBICOFF. As I read the press accounts of President Nixon's meeting with Mr. Meany, I inferred from those accounts that the AFL–CIO was not wedded to the Hartke-Burke bill as the only answer to our trade problems. There seemed to be a willingness on the part of Mr. Meany to discuss this entire problem with the President to see if they could not arrive at an agreement on what a trade bill should contain.

I gather that you approve of that approach, too, Senator Hartke?

Senator HARTKE. I approve of the approach that we should take action. To come forward and say this bill should be adopted with every "t" crossed and every "i" dotted in its present form is certainly unrealistic. I am willing to look at measures but I do not believe that you can just, as I think the administration wants us to do, abdicate the authority of Congress to deal with these factors entirely.

Senator RIBICOFF. Well, I do not know for certain if that is the administration approach. I have talked to Mr. Flanigan and Mr. Shultz on various occasions and my own understanding is that they are seeking a definitive policy, but they have not made up their minds as to just exactly how they want to proceed. It was my suggestion at these hearings that they go a little slower until they made up their minds and after real consultation with the Congress, on what the trade bill should contain. This is better than bringing up a trade bill which is subject to attack from almost every element of the American economy. I am curious to hear from Mr. Biemiller and Mr. Goldfinger both of whom are part of the braintrust of the AFL–CIO, and who are deeply involved in this problem, their thinking on where we should be going with a comprehensive trade bill. I know that they are going to play a role just like all of us on this committee.

Senator HARTKE. I think you have correctly analyzed all except one item on which I do disagree with you. I do not believe it is the intention of the administration to permit the Congress really to deal with this matter if they can find a way to have us abdicate. I think they want a Gulf of Tonkin resolution passed giving the President complete powers. What they want is the power to deal with this matter across the board effectively.

Now, that is just a difference of understanding which hopefully we can decide at some later date.

Senator RIBICOFF. Would you care to comment, Mr. Biemiller or Mr. Goldfinger?

Mr. GOLDFINGER. Well, we are supporting the Hartke-Burke bill as indicated clearly in Mr. Biemiller's statement, but the bill as Senator Hartke indicated, is not carved in stone forever. We are willing to communicate with the President of the United States and we have communicated with the President of the United States and representatives of the President, and we hope this communication continues, and part of the communication involves our communicating our grave concerns over this problem and the need for a comprehensive measure to deal with the problem.

We think at this point that the Hartke-Burke bill presents a framework—and we stand on that. It presents a framework for dealing with the problem, for dealing with the problem of the flood of imports into the country, for dealing with the problem of the export of American technology, the export of American capital, the operations of the multinationals abroad, and the various tax incentives and other incentives that exist that encourage American companies to operate abroad and expand their operations abroad.

I would add, sir, that what is involved here is not simply our trade balance. What is involved here is the nature of the American economy. We have been in the process of eroding the industrial base of this economic system and it is our conviction that the American economy and American society cannot prosper if this economy becomes in the next few years an economy that is dominated by hamburger stands, hotels, international banks, and importers. We need varied and diverse industrial production as part of the American economy, and we believe that this is one of the aspects of this serious problem.

Another aspect of this very serious problem has been indicated once again unfortunately, within the past few days and the past several weeks. The billions of American dollars that are floating around in Europe and elsewhere largely, not entirely but largely, as a result of the operations of the multinational companies and international banks, play havoc with the role of the American dollar and we have become vulnerable. We have become vulnerable to the operations of speculators. We have been vulnerable to the operations of the multinationals and the international banks, regardless of their motives, whether they are operating for speculative purposes or merely to protect themselves.

I have here an article from Business Week of February 17 with a headline—this following the most recent devaluation—"The multinationals reap a windfall". And it starts with a quotation from Mr. Richard Thompson, European financial director for Johnson's Wax, a multinational, and Mr. Thompson says: "We do not believe in gambling against the U.S. dollar. But with assets in Germany, England, and Japan, we made a handsome profit."

Now, I think it is reasonable to assume that Mr. Thompson is telling the truth, that Johnson's Wax operations did not gamble and speculate against the American dollar but they operated protectively in that case.

There are others undoubtedly who have been speculating against the dollar. But regardless of motives, this is a situation which makes this economy and this society vulnerable.

Senator RIBICOFF. Senator Fannin.

Senator FANNIN. Mr. Chairman, thank you.

Mr. Biemiller, we both have talked about this subject, that U.S. corporations and banks put profits ahead of patriotism, selling their country's currency in order to make swift profits for themselves. I think that is a serious charge. The Tariff Commission says they conclude that destructive predatory motives do not characterize international financial activities of most multinationals. Furthermore, the multinationals play a creative role.

Now, you have talked a lot about this and you referred to one article, Mr. Goldfinger, but would you supply this committee with proof of this most serious charge? What proof do you have that the multinationals have operated the way you say they have?

Mr. GOLDFINGER. Sir, I think the Tariff Commission report from which you quote, that Tariff Commission report in itself makes the charge and makes the statements that I just made.

Senator FANNIN. I beg your pardon. It certainly does not.

Mr. GOLDFINGER. They say that a small number of multinationals may be speculating against the dollar whereas most multinationals, and

I indicated that in the example of Johnson's Wax, are not speculating against the dollar. They are operating protectively, to protect their own private interests, and in protecting their own private interests abroad, they are operating, whether—you know, regardless of motive, they are operating against the interests of the American dollar. Those actions inevitably operate against the American dollar.

Senator FANNIN. We had testimony from one of the large corporations, very large corporation, IBM, and they dispute that statement that you have made.

Mr. GOLDFINGER. Well, I have in front of me the Wall Street Journal story on the Tariff Commission report, sir, and the Wall Street Journal story says:

> In assessing the aims of big companies in currency crises, the report offers two possible conclusions, either that the multinationals react protectively with moves to protect the value of their assets, or alternatively, that most multinationals "hardly react at all while a small minority capable of generating heavy disruptive movements of funds do so." The study said the latter group includes companies that may actually speculate in the sense of betting on exchange rate changes in hopes of a swift profit.

Senator FANNIN. But they do not quote any specific illustrations and I refer to the words that Mr. Biemiller used.

Mr. Biemiller, you state U.S. corporations and banks put profits ahead of patriotism. Now, I think that is a very serious charge.

Mr. GOLDFINGER. Senator——

Senator FANNIN. I am addressing my question to Mr. Biemiller.

Mr. BIEMILLER. May I point out to you, Senator, that first of all, you do have a general situation in which obviously multinational corporations want to make profits. That is what they are there for.

Senator FANNIN. That is absolutely what they are there for.

Mr. BIEMILLER. All right. Now——

Senator FANNIN. And much of that profit comes back to the United States.

Mr. BIEMILLER. And may I point out to you that, for example, an officer, a distinguished American citizen whom most of you will know, Mr. Orville Freeman, of Business International, on the "Today Show" only last Friday said the following: "Companies who do business worldwide that are seeking to protect the value of the money they have"—he is describing multinationals—"in other words, their actions are primarily protective. Their main business is manufacturing and selling, not speculating or dealing in money, but they do have a lot of money. It is rolling around the world and they are trying to protect themselves. Some of them may be doing a little speculating.

Senator FANNIN. Well, Mr. Biemiller, nobody is disputing some of them but you make a statement here, U.S. corporations and banks put profits ahead of patriotism. You are not saying some of them or one of them. You are saying U.S. corporations and banks. That is what I object to and I think it is very wrong for you to make that statement.

Mr. GOLDFINGER. Senator, well, that is our conviction.

Senator FANNIN. All right.

Mr. GOLDFINGER. But more than that, Senator. On February 23, the AFL–CIO Executive Council got to the point that you raise because we say regardless of motive, these things are operating against the best interests of the United States.

Senator FANNIN. That is not what Mr. Biemiller said.

We will go on to another question.

Mr. GOLDFINGER. No; but I want to say the AFL–CIO Executive Council on February 23 said: "America needs a prompt full-dress public congressional investigation" of these operations.

Senator FANNIN. Well, that is what we are—we are agreeable with that.

Mr. GOLDFINGER. Let us get into the facts here.

Senator FANNIN. All right.

Mr. Biemiller, you state that U.S. corporations and banks put profits—you have another one here, too. You say the multinationals have caused the loss of thousands of jobs in certain industries. The Tariff Commission study that you referred to or Mr. Goldfinger referred to, listed three hypothetical assumptions showing the loss of jobs running from 1.3 million to 400,000, to a net gain of 500,000.

Now, why should we advocate legislation that would place our multinationals in a position of not being able to compete on the basis of such flimsy evidence? There is nothing——

Mr. GOLDFINGER. Evidence in part is the Tariff Commission report.

Senator FANNIN. I grant that.

Mr. GOLDFINGER. The Tariff Commission report comes up with three different hypotheses.

Senator FANNIN. I gave them.

Mr. GOLDFINGER. And they leave out, sir, some key parts of the problems and those key parts were indicated clearly in Mr. Biemiller's statement and that is the export of technology. There is the additional loss of jobs, not simply through the operations of direct foreign subsidiaries, but there is the additional loss of jobs through license and patent agreements which are not through direct subsidiaries, and the Tariff Commission report did not go into that.

Senator FANNIN. For several years, we have known that we have been falling behind in many areas of manufacturing. I think that the Paris air show late in 1971 illustrated that from the standpoint of our air traffic industry. When we were criticized severely that we did not have an SST there. The other countries, the British and the French did have. The Russians had. We had many comments about the new designs of the foreign countries in this field of aircraft. And they stole the show. You no doubt remember that. The Americans were laughed at from the standpoint of their new development. So this is not anything new. But technology is not the possession of any one nation as shown by the jet engine.

Of course, you know who developed the jet engine and what is happening now with the engines, automotive engines. But one thing I think we forget about it is that we have been out negotiated, out traded by the Japanese and others, certainly by the Japanese, under GATT and will you work as an organization, as organizations, to try to correct that great inequity? I think that is the heart of our problem and we are letting these goods come in, for instance, automotives, at 3-percent tariff and we are closed down in other markets in the world and this is true in many other industries. I have not seen your work in that regard.

Now, you talk about going as far as the Burke-Hartke—of course, there are changes that Senator Hartke is talking about but certainly we do not want to just upset the whole trading program of the world and I think that would. Do you not think we should start with trying to do something about GATT?

Mr. BIEMILLER. We most certainly do not think that Hartke-Burke would disrupt the whole trading situation in the world. We think it would establish a system of fair trade which is what we are after. We have said repeatedly—I answered the chairman before, that we are certainly perfectly willing to participate in discussions of GATT. We have done it and if you could get us in a position where our impact would be even greater, we would be delighted.

I might tell you right now that even the incomplete deal that was made on textiles would never have been started if it had not been for American labor's people being at Geneva in 1961 because the American delegation there did not want any part of that kind of thing. I just cite that as an example of the fact that we have been working in this area for years and we certainly intend to, and as has been correctly interpreted by the chairman, the discussions that have taken place so far with the administration, with the President, with Secretary Shultz, with Secretary Rogers, have been of the nature that you would expect.

There has been nothing concrete developed as yet. The administration is soliciting views. There have been general discussions but there has been nothing concrete. But we have certainly indicated that we are perfectly willing at any time to sit down and discuss legislative problems.

We are not naive. We know that no bill ever comes out of the Congress exactly the way in which it is introduced, and certainly I know that the chairman is aware of the fact, for example, just to take another field for a moment, that in the field of welfare we were perfectly willing to sit down and discuss, try to work out a reasonable solution. We are always willing to do that.

Senator FANNIN. Well, we go back to some of these problems and we talk about the aircraft industry. We did dominate the world just a few years ago. I remember studying it. We had 74 percent of all the aircraft production worldwide.

Now, that is changing. It is sure to change. We know that because we cannot expect to hold that. We have the technology. We have the facilities. The other countries have come forward, and you mentioned about Japan. I watched them take some of the industry from my own State, so I have been vitally concerned about it. But we do not correct that without becoming competitive. And so, do you not agree, that our greatest problem today is our production per dollar of costs?

Mr. BIEMILLER. I do not agree with that statement for 1 minute.

Senator FANNIN. In other words, you feel that we do not need to be competitive on the world market?

Mr. BIEMILLER. No. You are inferring this is the great problem.

Senator FANNIN. That is—I maintain——

Mr. BIEMILLER. And we do not agree it is the great—that American productivity is the great problem. We can show you examples of multinationals operating abroad at higher labor costs than they do in this country. In unit labor costs I am talking about now. Not just wage rates.

Senator FANNIN. Well, I heard the multinationals' representatives talk about this. We are talking about, for instance, IBM. In a highly technical field that may be true but let us talk about the people that are out of work here in the United States today. They are not in those fields. We are talking about trying to do something for this country, to be competitive, so that we can have jobs, but what you—whatever product you take, bicycles, motors, baseball gloves, nine out of 10 made outside this country. Now, we cannot employ the people we are talking about today unless we can get those jobs back. Is that not our big problem as far as unemployment is concerned in the United States?

Mr. GOLDFINGER. This is part of the problem, sir, but a lot of that problem is the result of American foreign subsidiaries producing those goods there and shipping them back, and also American companies that have license and patent agreements with foreign companies and that have exported American technology frequently developed by the American taxpayer.

Senator FANNIN. There is not very much technology in making a baseball glove and——

Mr. GOLDFINGER. Well, there is in electronics and aircraft and other fields.

Senator FANNIN. If we just take the figures that have been given to us, now, these have come from theh U.S. Department of Commerce, Bureau of Economic Analysis, International Investment Division, and OECD Trade Statistics and Trade Relations Council, United States, and these are figures we go by. In these figures the multinationals have about 25 percent of all of our exports from this country and they send back into this Nation less than half of what they export from this Nation, according to those figures. What would you say to that?

Mr. GOLDFINGER. Well, we are not saying that every sale of the foreign subsidiaries is in direct competition with American products but——

Senator FANNIN. I am talking about the exports from this country to those countries.

Mr. GOLDFINGER. But some of those exports are the exports of technology, the export of machinery and equipment. They are one-time exports of equipment and machinery that then produce goods that kill us in foreign markets and at home.

Senator FANNIN. I will say this, Mr. Goldfinger. I would certainly agree with both you gentlemen. I wish we had some way we could retain our technology but you and I or all of us realize this just is not possible because all the technology is not in the possession of any one nation.

I appreciate very much your being here this morning. Certainly you have given us some valuable information. I do not accept all of it because I feel that we have contradictory information. Certainly I will delve into it to see what we can glean out of it and I do appreciate the effort you have put forth.

Senator RIBICOFF. Thank you very much.

Senator Mondale.

Senator MONDALE. Thank you, Mr. Chairman. May I say I join the chairman in expressing my appreciation for the powerful statement you have made on behalf of the AFL–CIO. Your statement dealt to a considerable degree with the job implications. I would like to go into two other areas, one, the speculation against the dollar, and two, the whole question of the eroding of the revenue base that this country must have to support its needed services.

We have tried in this committee to get specific information as to the role of U.S. multinationals in the recurrent currency speculations which have resulted now in a historic two-step 20 percent.

Approximately 20 percent, devaluation of the American dollar within a period of less than 2 years. Mr. Flanigan was asked what was the role of the multinationals in his testimony and that I think basically what he said is "we have not looked into it. We nave got some minor studies but we do not know." The multinationals say our role was not much but I have not seen the figures.

In your opinion, have the multinationals played an important, substantial role in these runs on the U.S. dollar or have they not?

Mr. Goldfinger. I would say, Senator Mondale, that they have played a major role, and I want to emphasize that we do not know to what extent that role was a speculative role against the American dollar or merely a protective role in defense of their own private self-interest. But regardless of motive, in either case it operated against the interests of the United States and of the American economy and of the American dollar. And I can—if you wish, I would read you a few more sentences from this article in "Business Week" which certainly is not a trade union publication.

Here is their report, part of their report, on what happened during that February 13 devaluation. They say:

> Almost in spite of themselves, many U.S. multinationals have found the last few weeks of currency speculation very profitable indeed. Upon the devaluation of the dollar, the value of both the large foreign exchange holdings and the extensive overseas operations held by multinationals jumped anywhere from five percent to 20 percent. Sellers of dollars for marks last week alone made an estimated $330 million.

Now, the report goes on to state: "A Frankfurt banker estimates that corporate treasurers alone were responsible for 'about 50 percent' of the $6 billion in dollars that flowed into Germany."

I think it is fair——

Senator Mondale. I think it would be well, Mr. Chairman, to place that article in the record.

Senator Ribicoff. Without objection, so ordered.

(The article referred to follows:)

[From Business Week, Feb. 17, 1973]

The Multinationals Reap a Windfall

"*We don't believe in gambling against the U.S. dollar. But with assets in Germany, England, and Japan, we made a handsome profit.*"—Richard Thompson, European financial director for Johnson's Wax.

Almost in spite of themselves, many U.S. multinationals have found the last few weeks of currency speculation very profitable indeed. Upon the devaluation of the dollar, the value of both the large foreign exchange holdings and the extensive overseas operations held by multinationals jumped anywhere from 5% to 20%. Sellers of dollars for marks last week alone made an estimated $330-million.

Many multinationals are quick to downplay their gains. "We do not play any Gnomes of Zurich games," says a spokesman for International Telephone & Telegraph Corp. Some even say the real gainers in the currency crisis were speculators from the oil-rich Arab states or Europeans who pulled their funds out of the U.S. stock market. But it is probably the giant multinational banks and corporations that applied the most potent pressure on the German central bank and forced the decision on devaluation. A Frankfurt banker estimates that corporate treasurers alone were responsible for "about 50%" of the $6-billion in dollars that flowed into Germany.

This latest evidence of the monetary power of multinationals comes at a time of intensifying political pressure on all international corporate activity. Not only are host countries more sensitive to foreign ownership, but the U.S. Congress has become increasingly concerned about the effects of multinationals on jobs and the U.S. balance of payments. Senator Abraham A. Ribicoff (D–Conn.) made public a study by the U.S. Tariff Commission that warned of the speculative danger of the growing size of corporate short-term liquid assets. By the end of 1971, the study says, $268-billion worth of such assets were held by private companies around the world—the lion's share by U.S. multinational companies and banks. Says Ribicoff: "Movement of only a small portion of the $268-billion could produce a massive monetary crisis." Last week, it took only $8-billion to close foreign exchange markets.

Blaming the system.—As might be expected, multinational executives blame the system. Says Theodore Frothingham III, manager of Chemical Bank's Paris office: "As long as you have billions of dollars without a fixed investment home, that money is going to move and attach itself wherever it can find a profit."

Certainly four years of sporadic monetary crises have helped multinational companies hone their skills in money manipulation. Says the European treasurer for a major U.S. oil company, "A year ago we took a position on the dollar so as to try to be in a reasonably balanced position and not be affected by currency upheavals." And that meant investments in marks. Toronto-based Massey-Ferguson, Ltd., is relying more and more on the protection of internal hedging tactics such as shortening intercompany credit terms for subsidiaries in weak currency countries. Since mid-1971, French electronics giant Thomson-Brandt has tried to write orders in French francs whenever possible and has converted any dollar revenues to francs.

Two weeks ago, with the announcement of the mammoth $6.4-billion U.S. trade deficit, many multinationals approached the thin line between protection and outright speculation. U.S. companies that had been borrowing heavily in German marks became concerned that they might have to repay in revalued currency. So some balanced their exchange risks by purchasing dollars on the open market and selling them to German banks.

As for the international banks, many tried to stay away from outright speculation. Says W. Walter Phelps, Jr., senior vice-president of international operations for Pittsburgh's Mellon National Bank & Trust Co.: "I don't want to sound pious, but we don't think it's right for a major U.S. bank to speculate against the dollar." Mellon did, however, help its corporate customers protect themselves.

Indeed, it was difficult to find any multinational operation that was not more than protected. "We were modestly long in our position on foreign currencies," says Paul L. Smith, executive vice-president of Los Angeles' Security Pacific National Bank, "And we would be surprised if any major bank would have been short." Even companies such as ITT that deny any speculation anticipate major gains from the revaluation of assets of their German manufacturing operations.

In the end, that left only only a few big losers, mainly the central banks that were stuck with large dollar holdings. The loss for the German central bank alone was put at $2.6-billion.

Senator MONDALE. Now, let us turn to the role of other companies that may not be United States, but—and I have in mind oil corporations—which seem to me engaging in an international crap game where we put up all the stakes and pay all the losses. I do not see how they can lose. They can take millions or billions—they have either—speculate against the dollar—even if the dollar is undervalued—break the value of the dollar, and, because of the devaluation, make millions on that transaction, and then pick up billions on the other end in the increased cost of oil that we must import from their countries.

Mr. GOLDFINGER. I——

Senator MONDALE. Is that not correct?

Mr. GOLDFINGER. I believe you are right, Senator, and furthermore, U.S. tax law provides depletion allowances to their foreign operations.

Senator MONDALE. I want to get into taxes in a second but it seems to me we are in a no-win proposition where even after a 20-percent devaluation of the American dollar which will increase the cost of living to our people and to your members and their families, there is nothing to guarantee we will not have the same thing next week. As a matter of fact, we had a mass of speculation after the 20-percent devaluation. What is the end of it unless we have some alternative way of protecting our national interest?

Mr. GOLDFINGER. Well, Senator, we do not believe that devaluation in itself is an answer to this problem whatsoever. We think devaluation is an action, and by and large, it is a panic reaction. It is not a policy. What this country needs for the defense of the national interests and the interests of the American people, what we need is a comprehensive Government policy and we do not have a comprehensive Government policy at this point.

Senator MONDALE. It seems to me that there is a good deal of responsible comment which has concluded that the American multinational has for protection or whatever they call it—business management—perhaps changed U.S.-held dollars into foreign currencies for the purpose of protecting their position. Whatever their other motives might be, that I think is pretty well established and it may involve hundreds of millions of dollars. We do not know. But I think the multinationals would be doing this committee a great service if they would tell us precisely in each instance how much they converted into other currencies and how much money, if any, they made. Then we would not have to speculate about the extent or the involvement of multinationals.

Mr. GOLDFINGER. Right. We agree with you, Senator.

Senator MONDALE. In other words, they could end the speculation. The facts are there and we could find out one way or another what was involved. But I think in a sense the multinationals have taken the position that we will not tell you and if you criticize us, you are being unfair. And I think in fairness to this committee we should be told so we know what is going on. The country should be told because we have gone through an enormous revolution just in the last 2 years in the value of the American dollar, in the destruction of international money markets, and I think if these hearings result in anything about multinationals, we must find out what their role is—not to impugn them or put them down or attack them but simply to find out what is going on. Would you agree with that?

Mr. GOLDFINGER. Oh, absolutely, sir.

Senator MONDALE. Now, the second point I wish to make is in the area of taxes. According to an excellent committee print here, in the last 2 years the multinationals have earned something like $11 billion taxable income from foreign sources and in 1970 paid $640 million in U.S. taxes on such income while they paid approximately $5.6 billion in foreign taxes.

Mr. GOLDFINGER. Correct.

Senator MONDALE. In manufacturing, foreign income has gone up $1.7 billion in 2 years. U.S. paid taxes have dropped $25 million while foreign paid taxes have gone up a billion dollars. In mining, according to this print, U.S.-owned mining companies overseas have paid no U.S. Federal taxes—that is, income taxes I assume—in either 1968 or 1970.

We are in a situation here where we are told that we cannot afford programs for housing. We have to cut back money for educating our children. We have to cut our environment funds in half. The farmers and people of rural America are being told there will be no social programs of any kind, not for electricity or telephones or environment or sewer or water or housing or for basic commodity programs. The poor are being told we cannot afford the poverty program. The health professionals are being told we can no longer afford medical facilities grants. We have to cut back on a great deal of health research. And in the meantime, we see a phenomenon by which the American capacity to generate revenue for essential fundamental research is being eroded.

Now, as one who is very interested in those social programs I know we are either going to eliminate them or somebody is going to have to pay for them. I happen to believe in international trade but I think somehow we are seeing a phenomenan here where the capacity of the United States to pay for essential services is being dramatically eroded. Would you comment on that?

Mr. BIEMILLER. We are saying that tomorrow before the Ways and Means Committee of the House in testimony that President Meany will be delivering on tax policies. We agree substantially with what you are saying. This is a very serious question. You are quite right, that either they are going to be eroded or we have to find a broader tax base to handle this.

Senator MONDALE. Now, if an American business exports a commodity produced in the United States—if it sets up a DISC corporation—it can deduct half its taxes. If it sells in Europe, it has to pay a 15-percent border tax. So even where we are producing U.S. goods, the tax take is being dramatically reduced in the United States while we are paying a 15-percent social cost tax to help the Common Market countries pay for their social costs. Where is this going to end?

Mr. GOLDFINGER. Well, we think that you are pointing up some very serious aspects of this whole problem and as you said, it is a no-win situation, Senator Mondale, I mean, that is the way we feel about it.

Senator MONDALE. Thank you, Mr. Chairman.

Senator RIBICOFF. Senator Hartke.

Senator HARTKE. Thank you.

There is no need for me to say I appreciate your support of the Hartke-Burke bill and appreciate the fact that you put Hartke first when you came to the Senate side. It is known as the Burke-Hartke bill.

Let me say I think there is one fact which is missed—whether intentionally or otherwise, I do not know—it is the fact that the trade war is on. No question about that. It has been on for quite some time. The problem is that they have declared war on us. The question that faces us is whether we are going to defend ourselves or just capitulate and surrender?

The fact of the matter is that they have already invaded our markets, they have captured our jobs, and stolen our technology. They are going into every field, there is not any question about it.

Just for the benefit of the chairman I would like to read a portion of Mr. Biemiller's testimony.

This is on page 1H in your supplement. "Export of jobs by multinationals—some examples." And I want you to know that what you have done is very small compared to the possible number of examples. You did not give a single one from Indiana. We have got plenty out there.

"More than 1,000 steelworkers' jobs were exported from Meriden-Wallingford, Conn."

I think you know where Connecticut is, Mr. Chairman.

Senator RIBICOFF. May I say to my distinguished colleague, I am very much aware of where all the 169 towns in the State of Connecticut are and I do not think I need an education.

Senator HARTKE. I do not want to educate you but I just want to emphasize publicly, the extent of the problem.

"More than 1,000 steelworkers' jobs were exported from Meriden-Wallingford, Conn., area to Taiwan."

Senator RIBICOFF. By the way, that is Meriden. Not Meridian. Meridian is in Mississippi.

Senator HARTKE. Meriden.

Senator RIBICOFF. Meriden.

Senator HARTKE. I apologize for that. My first daughter was born in New London. I just want you to know that.

Senator RIBICOFF. New London, that is the correct pronunciation.

Senator HARTKE. My point is that "The stainless steel flatware formerly made in Connecticut is now imported by Insilco."

Is that the proper pronunciation?

Senator RIBICOFF. That is the abbreviation of International Silver Co.

Senator HARTKE. "This is just one example of the export of jobs of steelworkers by multinational firms which have sent thousands of jobs in ballbearings, roller chain and other steel products out of the United States."

Senator RIBICOFF. I think one of the things that should be commented on is that for years International Silver Co. was trying to get a tariff for the importation of stainless steel because they wanted to manufacture that stainless steel in Meriden, Conn. When they found that the tariff could not be raised high enough in order to survive, they then started to manufacture it abroad. And I think that is the case in many instances that Mr. Goldfinger and Mr. Biemiller are talking about.

I think the added shock of their testimony is that we can no longer feel smug over our lead in high technology goods. As they point out, what happened in low technology items is now happening in high technology items. If the trend continues we will end up with our high technology items being manufactured abroad and exported back into the United States. I think that is the significance of their testimony today.

Senator HARTKE. I think that is a correct assessment. What in substance you are saying is the trade crisis currently exists and the United States is at a distinct disadvantage. We are not able at this time to really react. Some people say that adopting the Hartke-Burke bill will cause retaliation.

I do think unless something is done we are going to have a worldwide depression.

A depression may not be as far off as some people think. I happen to be a product of that depression and I am not interested in going through the second one in my lifetime.

Recently I spoke with a group of Canadian businessmen. They were concerned with the Hartke-Burke bill. Even though they were not in basic agreement with the bill they wanted me to know they felt some of these measures might be beneficial to them. To attempt to understand their exact position, I asked them what their position would be if I offered a bill to provide for the complete elimination of all tariff barriers, of all trade restrictions, and all investment restrictions. To provide in essence for an absolute common market arrangement between the United States and Canada. I told them that if they support such a measure, I would introduce it in the Senate. They refused to support such a measure.

So, you see, when many international businessmen talk about the Hartke-Burke bill as being a protectionist measure it becomes quite evident immediately that their view depends on what will be most beneficial to them and such view is subject to considerable fluctuation.

It appears that the multinational corporations do not understand what the future holds in store for them. For instance in Mexico there is a requirement of 60-percent ownership. That is not 100 percent but it is significantly more than it is here in the United States, where there is no requirement for any type of local ownership participation.

My point is that once you build a plant in Mexico you cannot move it back in the United States of America. It is made of concrete and steel. It is going to stay there. Whether the jobs move is another thing but the job is probably going to stay where the plant investment is and this is part of our problem.

I want to say, Mr. Goldfinger, you mentioned a moment ago about no change in the social condition. What is happening here, and I do think you mentioned that, in this pattern, that we are going to become a service economy. You did not say that, but I know that you meant that.

Mr. GOLDFINGER. Yes, sir.

Senator HARTKE. The fact of it is as I said about the people at Studebaker, when they stopped making automobiles under the UAW rate, most of them became unemployed. Nonetheless being industrious they went out and secured another job at about one-half the pay. They lost their pension rights, as you well know, which is another issue. Taxation, as Senator Mondale stated, pension rights, standardization of wages, all these items are important but I do think we must start untying the hands of the American businessman and of the American worker and the Amercian Government in this international trade confrontation in which we are presently engaged. But I do not think the trade crisis can be solved by the administration's approach, which I feel is similar to the Gulf of Tonkin resolution in its complete abdication of congressional responsibility.

Here we are involved in this trade war. The United States is on the losing side yet we are constantly exhorted to do nothing, not to raise tariffs, lower tariffs, put on controls, take off controls, to control investment, not control investment.

It is my opinion that the Congress must act not just to be an adviser but act in a specific legislative way to aid in resolving our trade crisis.

As you indicated before, the Hartke-Burke bill has been called a protectionist measure. But I would like to point out that the bill does not provide for an absolute quota system, contrary to the propaganda that is being put out.

Mr. Chairman, I do not have any further questions. I have worked with these witnesses in the past. I am not saying that I agree with everything they say, but I do think they have raised some issues for serious consideration by this subcommittee.

Senator RIBICOFF. Thank you very much, Mr. Biemiller. I just want you to know that your statement, with some introductory comments, will be put in the Congressional Record this afternoon by me. I think it is a very valuable contribution to the entire discussion that is now going on.

Mr. BIEMILLER. I am assuming that the appendix will also be——

Senator RIBICOFF. Yes.

Senator HARTKE. Mr. Chairman, I would like to add one other thing. Your staff had produced an excellent table called the "Federal Income Tax Receipts and Corporation Income Tax Receipts as a Percent of Total Income Tax Receipts for Fiscal Years 1951 through 1972," which demonstrates that the corporate income taxes as a percentage of the total today is some 16.4 percent less than it was at its high point in that period and now represents a total contribution of 25.3 percent, and incidentally, that is 10 percent less, the total contribution of the corporations to the tax load of America, than it was a decade ago.

I would like the table to be submitted for the record.

(The table referred to by Senator Hartke and Mr. Biemiller's prepared statement, follow. A report of the Maritime Trades Union of the AFL–CIO, entitled "U.S Multinationals, the Dimming of America," referred to previously by Senator Ribicoff, appears at Appendix B, p. 443. Hearings continues on p. 367).

FEDERAL INCOME TAX RECEIPTS AND CORPORATION INCOME TAX RECEIPTS AS A PERCENT OF TOTAL INCOME TAX RECEIPTS FOR FISCAL YEARS 1951–72

	Federal income tax receipts (millions)[1]			Corporation income taxes as percent of total
	Individual	Corporation	Total	
Fiscal years:				
1951	21,643	14,106	35,749	39.5
1952	27,913	21,225	49,138	43.2
1953	30,108	21,238	51,346	41.4
1954	29,542	21,101	50,643	41.7
1955	28,747	17,861	46,608	38.3
1956	32,188	20,880	53,068	39.3
1957	35,620	21,167	56,787	37.3
1958	34,724	20,074	54,798	36.6
1959	36,719	17,309	54,028	32.0
1960	40,715	21,494	62,209	34.6
1961	41,338	20,954	62,292	33.6
1962	45,571	20,523	66,094	31.1
1963	47,588	21,579	69,167	31.2
1964	48,697	23,493	72,190	32.5
1965	48,792	25,461	74,253	34.3
1966	55,446	30,073	85,519	35.2
1967	61,526	33,971	95,497	35.6
1968	68,726	28,665	97,391	29.4
1969	87,249	36,678	123,927	29.6
1970	90,412	32,829	123,241	26.6
1971	86,230	26,785	113,015	23.7
1972	94,737	32,166	126,903	25.3

[1] Gross collections less refunds.

Source: U.S. Budget Documents, Feb. 22, 1973.

Senator RIBICOFF. Without objection, thank you very much.

Mr. BIEMILLER. Thank you.

Mr. GOLDFINGER. Thank you, sir.

STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

The AFL–CIO welcomes the opportunity to appear before this subcommittee to explore problems related to the operations of multinational corporations. We believe, that the unregulated activities of U.S.-based multinational firms are a major factor in the worsening position of the United States economy in an ever-changing world.

We are convinced that American-based multinational firms export American jobs, export American technology and export American capital. We do not claim that all of America's trade woes are the fault of the multinational firms, but within the confines of this committees' study, we wish to call attention to the need for legislation to curb the devastating impact these activities have on the American society and the American economy.

This devastation includes:

The shutdown of American production and its reestablishment abroad where foreign markets are served and exports to the U.S. are manufactured.

The location abroad of facilities for corporate expansion and the production of new products and improved products.

The export of technology by direct transplant, by licensing, by patent agreement and by other methods, thereby eroding the base on which America's industrial society is built, much of it paid for by American taxpayers.

The export of capital to build an industrial base abroad at the expense of U.S. industry, the profits of which are often used to speculate in the world's monetary markets against the U.S. dollar.

These massive operations by American multinational corporations in Taiwan, Mexico, Haiti, Hong Kong, Singapore, Brazil, Europe, Japan and virtually the entire globe are taking a heavy toll among American families and American communities from coast to coast.

The shutdown of manufacturing operations here depresses the American economy by the loss of domestic jobs, the loss of payrolls, the loss of domestic corporation revenues, the loss of local purchasing power, the loss of local taxes and the "ripple out" effect on the local service economy. Hard hit communities face empty factories, slackened business on Main street, unemployed workers and heavy revenue losses. Meanwhile, the multinational corporation, freed of its American responsibility, issues rosy reports of expanding sales and rising profits and "creation of American jobs."

It is important that Americans understand this major phenomenon of the multinational firm and its impact on America's standard of living, on America's trade balance, its balance of payments and its industrial future.

Today, thousands of giant firms are supranational entities, each making decisions in its own interest with major consequences in shaping the America of the Seventies and the America of the future. These corporations make private decisions for private purposes, but they are as far-reaching as major decisions of a political state.

Multinational firms come in all shapes and sizes. They produce, sell, license and finance operations of magnitudes greater than entire budgets of sovereign nations. They jump national boundaries. They overwhelm international systems of trade and finance. They stagger currencies, they shake governments and they wipe out whole major industries.

In the U.S., multinational firms include America's largest employers, largest defense contractors, largest government contractors, largest manufacturers, largest financial institutions. Multinationals are America's major exporters and importers of products, technology, money and jobs. (Appendix 3G shows examples of some firms' holdings.)

Abroad, multinational exports from their foreign operations are larger than all of U.S. exports. The recent Tariff Commission report disclosed that some of the multinational firms' "majority owned affiliates" abroad exported in 1970 to countries other than the United States an estimated $33 billion, compared with exports to the United States of $10 billion and local sales within the foreign country of $118 billion. This total of $43 billion in exports is virtually identical to the 1970 total of all exports from the United States.

But that isn't all. The multinational firms' $43 billion worth of exports from their foreign operations in 1970 does not include output from plants partially owned or output from licensees in countries like Japan. Therefore, it is clear that U.S.-based multinationals are so massive in operations abroad that they create more exports outside the U.S. than the United States as a whole is able to export.

These foreign exports—to the U.S. and to other markets—clearly illustrate why efforts to expand exports from the U.S. meet increasing competition, not only from foreign firms but also from the U.S. multinationals abroad.

The exports of foreign manufacturing subsidiaries of American companies is more than twice as great as the total volume of manufactured exports from the U.S.

Let us examine this phenomenon in more detail. Let's look at U.S. jobs, U.S. technology and U.S. industry in the Seventies, as they relate to the multinational firms. Virtually every U.S. industry is affected but we will confine our examination to one single industry—aerospace. Americans have been told that this particular industry is securely ours because it is strong in exports, high in technology and vital to America's national security.

But events in the aerospace industry explain how job and technology exports affect all skill levels—and why reports on trade statistics or foreign direct investment alone fail to cover the whole story of the new interchange in the world of the 1970's.

The aerospace industry, where U.S. has held technological supremacy, is steadily being exported abroad. At this moment, for example, an entire missile launching complex—rocket and all—which has the potential for intercontinental missile capability, is being exported to Japan.

The AFL–CIO has learned that the *Thor-Delta launch rocket and its entire missile launch system* is now in the process of being sold to the Japanese by the McDonnell-Douglas Corporation, a multinational firm. Japanese engineers are currently at Vandenberg Air Force Base in California being trained in the development and use of the system. A prototype rocket is being built in nearby Santa Monica. It is expected that upon completion, the system will be set up on an island west of Japan. The Thor-Delta rocket and launch system is considered by space experts to be America's most effective and reliable launching unit. The system is presently used to launch satellites, the most recent being the Earth Resources Technology System.

The Thor-Delta system is capable of carrying several hundred pound objects into space orbit or, with little modification, can carry a nuclear warhead in the 1,500–5,000 mile range, clearly a potentially offensive weapon.

The export of the Thor-Delta system to the Japanese means that the capability of satellite and intercontinental missile launching system will no longer be the exclusive property of the U.S. and the Russians.

For several years the Japanese attempted to develop a system of their own and after its failure made a contract with the multinational McDonnell-Douglas Corporation to buy plans and production capability for a modified Thor-Delta rocket system. The basic system was developed at taxpayer expense and cost millions of dollars in research and development funds before it became operational. It has been used to launch satellites for Canada, France and a multi-nation weather watcher for seven North European nations. Such launching work has provided the U.S. with millions of dollars in funds, helping to offset the U.S. balance of payments deficit.

This one-time sale, which, of course, benefits the U.S. balance of payments this one time, will adversely affect U.S. balance of payments for years to come.

Workers involved at the Vandenberg base are understandably upset over the transfer because of its many implications for U.S. defense and aerospace capability. They fear that the system is being sold for the exclusive profit of McDonnell-Douglas while the nation loses a basic resource. They point out that the education of highly trained Americans, millions of dollars in U.S. funds and expensive trial and error testing brought about a basic technological system which is now being sold out at a fraction of its worth.

In addition, they fear that putting another nation into direct competition in the satellite launching business will mean an end to development of further U.S. technology in this area. The sale of America's most sophisticated technology, they feel, will cause highly trained jobless personnel to disperse and be difficult to assemble again, even if further development is considered. In addition to those who work at the launch facility, additional hundreds of workers have been employed in the manufacture of the Delta rocket in California aerospace factories. Involved in the project at the present time are an estimated 1,200 to 2,000 skilled aerospace workers.

Initiative for the Japan-McDonnell-Douglas deal was developed at a 1971 meeting in Tokyo between U.S. cabinet officers and their Japanese counterparts. That meeting in effect ratified the negotiations that had been under way for the missile system sale.

Estimates at that time were that the bilateral understanding could mean up to $100 million in profits to U.S. concerns over four to five years. Of added incentive to the U.S. companies was the agreement by Japan at that time to move ahead on permitting foreign investment by U.S. multinational firms in its automotive industry. Both moves would profit stockholders of the corporations involved at the expense of U.S. aerospace and automobile workers.

The 1973 Tariff Commission report on multinational firms disclosed that such firms (which would include McDonnell-Douglas, even though the Commission did not include aerospace) "dominate the development of new domestic technology. They are also the principal institutions through which technology in its various forms is exported and imported."

Throughout the aerospace industry there are many other illustrations of the export of technology, in what has been this nation's industry with the largest the export of manufactured goods. The long range implications for U.S. jobs, U.S. technology leadership, U.S. defense, and balance of payments should be ominously clear. There many other illustrations. For example:

Since 1971, hardware for the *Safeguard anti-missile system* has been assembled in Hong Kong. Under a subcontract for Western Electric, Lockheed Electronics Corporation of Commerce, California, is assembling components of the missile system's memory core racks in a Hong Kong factory. The Lockheed plant—only a few miles from Red China—employs 700 workers at $2 per day. The export of work cut several hundred workers from the company's Commerce facility at a time when there was heavy unemployment in the California aerospace industry.

In military aircraft, too, American industrial leadership is being rapidly sold off and exported abroad. McDonnell-Douglas has licensed Mitsubishi of Japan to build 91 F–4 fighter planes, the famous Phantom fighter. After building two prototypes in St. Louis, the company made a contract with the Japanese to furnish the blueprints, the technology and, where necessary, technicians to build the other 91 F–4 in Japan. The result is a heavy loss of employment among highly trained U.S. aircraft technicians, the loss of paychecks to St. Louis, the loss of an export industry and the transfer of a total military production facility to another nation. The potential for balance of trade was considerable.

Also in military aircraft, the Northrop Corporation is reported in the press as about to license the production of the American F–5E fighter plane in Taiwan. Currently all nationalist Chinese military aircraft are bought in the United States. One U.S. official, commenting on the deal, regarded it solely in military terms: "Whether we manufacture the planes here and sell them to Taiwan, or let it manufacture them shouldn't make all that much difference." In economic terms, the impact is far greater. Not only will Taiwan manufacture the planes for its own use and thus cost Americans their jobs, but Taiwan is expected to export its manufacture of F–5E aircraft to other nations, thus cutting further into U.S. exports and balance of payment receipts among other nations buying U.S.-made aircraft.

Ironically, Taiwan is doing very well in terms of its trade with the United States. In 1972, the United States exported $630 million in goods to that nation. During the same period, the U.S. imported a torrent of TV sets, electronic equipment and other products for a total of $1.3 billion, mostly produced by U.S. multinational firms. Thus with the F–5E export and job loss here, America's very heavy trade deficit with Taiwan will become worse.

Earlier, the F–104 Starfighter followed the same export route. When Japan wanted the F–104 Starfighter, then built by Lockheed in California, it arranged to have it built in Japan. Lockheed not only shipped over the designs, tools and equipment, but supplied the supervision needed to train the Japanese workers. Now, of course, Japan has the technology as well as the plane. The same is true in Italy where the Italian Air Force, which currently has 165 F–104 aircraft now plans to manufacture the plane in Turin.

Technology in the engine for the B–1 bomber also nearly became an export but was halted only because it contained military secrets. General Electric and SNECMA, France's state-owned aircraft engine maker, arranged to build a "quiet engine" for airliners. Under the deal, the French would lend half of the $500 million needed and GE would supply much of the technology.

The deal was vetoed by the State and Defense Departments on the ground that GE's technology sale involved disclosing a U.S. military secret: the core of the F–101 engine it has developed for the new B–1 bomber. At last reports, the companies were trying to get around the problem. The production, of course, and all the technology, would move to France. U.S. workers would be squeezed out of the project.

In commercial aircraft, the export of U.S. superiority is also accelerating.

Recently, the Boeing Company entered into an agreement with the Japanese government to develop a new wide-bodied *air bus*. Technology for the short haul airliner will come from Seattle; the work will be done in Japan by employees of three manufacturers—Mitsubishi, Kawasaki and Fuji.

Boeing has also entered into a joint arrangement with Aeritalia of Italy to build the 7X7 airbus, with part of the production to take place in Italy. When the agreement was made, Boeing President Malcolm Stamper declared: "They've got the money and we've got the smarts."

At the same time, United Aircraft is helping Mitsubishi produce *gas turbine aircraft engines*. The technology comes from East Hartford, Conn., an area with very heavy unemployment.

It is no secret in Seatle that 200 Italians are being trained there by Boeing. Eventually they will go home to tool up an Italian aircraft plant to produce short take-off and landing aircraft *(STOL)* for the European market. Until now, Boeing planes sold to European airlines have always come from Seattle.

America's largest manufacturer of private aircraft, *Cessna* of Wichita, Kansas, is working with Rheims Aviation of France. Of the 500 Cessnas expected to be sold in Europe this year, three-fourths will be built in France under a license agreement. This arrangement benefits Cessna stockholders but not Cessna's American workers. Cessna's transfer of production abroad is not limited to France. It is producing planes in Argentina, as is Piper, which is building 150 executive and crop-dusting planes per year in that country.

Other commercial and military exports—with resultant job losses—are the production in Japan of the *Silorsky S–61 helicopter* and the Pratt & Whitney *JT8D turbofan* engine for the C–1 U.S. military transport.

The implications of this ever-accelerating sell-off of American technology and the export of aerospace jobs is not only obvious to the workers involved, it has also aroused the concern of specialists in the field.

Dr. Harvey Taufen of the Hercules Corporation recently reported that Japan has paid about $90 million per year or $1 per capita "to get all the results of all the successful, proven technology in the world." As a result, Taufen says, "Japan's shopping has brought it one of the most incredible bargains in the world."

Supporting the Taufen claim, Nathaniel Brenner, marketing director for Coates and Welter Instrument Corporation, stated in Chemical and Engineering News last year:

"Technology is not an aesthetic pursuit like mustic or poetry, but rather a commodity of commercial value, with an investment cost that can be measured, a dollar value that can be computed and a clear market advantage for those who have it versus those who don't. * * *

"The product of this investment, like the product of the oil well or the factory, cannot be given away to foreign countries, by multinational corporations or any other channel without a clear, measured quid pro quo or the United States will suffer exactly what a corporation suffers that sells below cost for an extended period—bankruptcy. * * *

"Anyone who is naive enough to believe that the Japanese or British governments permit foreigners to license their processes as freely as the U.S. does ours has simply never tried to negotiate these transactions."

This is the sad story of the export of the U.S. aerospace industry. We have dwelt on this area in detail because it is a shocking account of the massive destruction being dealt to one of America's most advanced industries in terms of technology, highly skilled personnel and national security. Translate the losses being suffered in aerospace into all the other industries in America in terms of thousands of jobs and loss of technology and you can begin to comprehend the massive change that is overwhelming this country. No government or business studies include these facts.

There is also a further devastating effect. The recent devaluation—as the one in 1971—resulted from an international monetary crisis, with a run on the U.S. dollar. There is a direct relationship to the growth of the U.S. multinational firms abroad and the monetary crisis. American corporations and multinational banks have huge and increasing investments in foreign countries and they keep their American dollars there to expand their foreign holdings and often to avoid paying U.S. taxes on their foreign earned profits. There are now about $60 billion American dollars in Europe and about $20 billion American dollars in Japan. Only a fraction of these billions, moved with ease beyond the reach of central banks of governments, can cause serious monetary problems. By these currency actions, U.S. corporations and banks put profits ahead of patriotism, selling their country's currency in order to make swift profits for themselves.

It is against this background of multinational corporations acting in their own interests, for their own profits, that American working people and American businessmen and the American industrial system is being asked to perform a mission impossible:

Americans are told to seek jobs and help themselves. But their jobs are exported to other nations where multinational firms compete by producing within those nations and exporting from those nations to any part of the world their management chooses.

Americans are asked to improve productivity at home and keep labor costs down and expand exports from the United States. But the multinational firms expand their operations in other nations, often without regard to productivity or labor costs at home. The effect erodes U.S. exports and creates competition against U.S. exports to foreign countries. The firms also send imports into the United States from those countries.

Americans are asked to reduce trade barriers for expanded U.S. trade, but multinational firms use foreign trade barriers as a sword and a shield against U.S. trade expansion.

Americans are asked to understand that other nations have the right to curb U.S. investment in their country, to regulate the output of that investment in their country and to require U.S. firms to export from the foreign country. But if Americans suggest curbs for trade and investment they are told they would provoke a trade war. Meanwhile, other countries issue new regulations and erect new barriers at an increasing rate.

Americans are asked to pay taxes to help develop new technology for America's economic strength. But multinational firms are the largest exporters of that technology to other lands, where foreign nations regulate inflows of technology and its outflow.

Americans are asked to give tax breaks to U.S. firms to encourage them to stay at home and export. But the multinationals can and do take advantage of the tax breaks at home and abroad and still go abroad without expanding U.S. exports.

Americans are told to help improve the trade balance to strengthen the dollar and not adopt effective capital controls, but the nations of the world have regulated capital in increasing numbers. The multinationals meanwhile have more liquid assets available to speculate against the dollar than the world reserves available to governments.

The total effect of these conflicting objectives adds up to one well-known American labor term—"unfair."

EXPORT OF JOBS

The export of jobs is a fact for millions of Americans. Garment workers and aerospace workers, steelworkers and machinists, shoe workers and glass workers, chemical workers and electronics technicians, seafarers and stagehands, service workers and engineers, salesmen and teachers—all types of American workers have been affected. From the Mexican border to Singapore, from Haiti to Hong Kong, from Brazil to Yugoslavia, U.S.-based multinationals enjoy the advantage of U.S. tariff provisions, trade and tax laws which aid and abet these transfers. The companies also use foreign laws to expand abroad, and then claim U.S. jobs grow from the trickle-down effect.

The Tariff Commission reported to this Committee, "the multinational firms are neither minor employers nor a special case which can be analyzed independently of the national economy. They are the backbone of the demand side of the labor market, the firms which * * * have the biggest quantiative punch in terms of the numbers of people they hire * * *."

The Tariff Commission did not try to analyze job exports, but made some assumptions and provided some estimates. The report shows that two out of three possible assumptions would lead to the conclusion that between 400,000 and 1.3 million job opportunities were lost to American because of investment and trade changes in which the firms' activities were a factor.

No government survey of the overall impact of multinational firms has ever been attempted. Only foreign direct investments of some firms have been surveyed in part. These studies do not include all imports of the firms. licensing arrangements or other factors that affect the interchange. But they credit U.S. job expansion—from whatever cause—as the "proof" that benefits accrue to the U.S. economy.

But American job losses are not a theoretical problem. They are a fact.

Government reports show that U.S. firms spent in direct investment in manufacturing alone more every year between 1960 and 1972—starting with $1.4 billion in 1960 and rising to $6.9 billion in 1972. (See Table I) It was during this period that the United States lost its gains in trade—with imports, particularly of manufactured goods, rising much more than exports of manufactured goods.

During this period, direct investment expanded rapidly in other countries of the world in the manufacturing industries in which the U.S. trade position worsened. (See Table II) The multinational firms contributed to the economic strength of other nations and the exports to the U.S. This has resulted in massive losses of U.S. jobs and job opportunities in many kinds of manufacturing, as well as service and other jobs related to manufacturing.

Even a Commerce Department study showed a part of this picture.

Findings from the Commerce Department's "Special Survey of U.S. Multinational Companies, 1970," published in November 1972, reported on 298 U.S. firms with foreign affiliates. In manufacturing industries from 1966 to 1970, the report showed:

60.7% rise in manufacturing sales of the foreign subsidiaries.

52.9% rise in manufacturing sales within country of location.

77.5% rise in manufacturing sales to other countries, excluding the U.S.

129.4% rise in manufacturing sales back to U.S.

In 1970, about one-third (33%) of their foreign sales came back to the U.S.—up from 27.6% in 1966.

Employment figures in the report showed manufacturing jobs in these 298 firms' U.S. facilities rose 7.6%, while they increased 26.5% in their foreign subsidiaries—a rise of 450,000 jobs at home and 452,000 abroad. This development took place when U.S. employment needs were greater than before—from defense cutbacks, returning GI's, adjustment to soaring imports and a growing labor force.

Government studies of direct investment do not point out that the industries in which direct investment has expanded rapidly are often the industries in which U.S. jobs have declined in actual and absolute numbers. The Commerce Department surveys merely highlight jobs within some reporting U.S. multinationals. They do not record actual overall job losses in the U.S.—often affected by the multinationals' competition with smaller firms at home and abroad or acquisitions of smaller firms at home and abroad.

In major industries at home, in which the multinationals are key factors, U.S. Labor Department figures show substantial job losses between 1966 and 1972. These industries include transportation equipment, electrical equipment, non-electrical machinery. In transport equipment, the loss was 170,900; non-electric machinery 45,800, and electrical equipment. 75,700. That is a net loss of job opportunities in three of the key industries in which foreign direct investment is reported. Only in chemical and allied products did jobs in the U.S. increase by 40,000. (See Tables III and IV)

No matter how small the breakdown, or how large the overall figures, American jobs have been lost.

As the largest employers and producers in this nation, the claim of the multinationals that it would have been worse if they had not gone abroad makes one wonder how much worse it could have been. These firms have taken credit for and are still receiving benefits from all the growth and market size of the U.S. economy, from government spending and contracting, from the efforts of the government to spur the U.S. economy.

Since 1963, the AFL–CIO has emphasized its concern for the multinational problem. We seek regulation, not destruction. We seek fair trade, not less trade. We seek recognition of new reality, not old slogans for new problems.

We seek understanding of the 1970's, not cliches from 1929. We seek U.S. government policy in the interests of the people of the United States, not the private foreign policy of the multinationals.

THE HARTKE-BURKE BILL

The Foreign Trade and Investment Act of 1973 is a positive policy that puts the United States interest first. The Hartke-Burke bill revamps U.S. foreign trade, tax and investment laws to overcome growing problems of the export of American jobs, trade imbalances and an increasingly distorted U.S. economy. It is a bill to assure a healthy, growing industrialized America—providing jobs for its millions of citizens in modern industry in a changing world. It assures American taxpayers, consumers, workers and businessmen a fair set of laws for their country so that America can cooperate with other nations for the mutual benefit of all.

The world is still a world of nation-states. International action, in the future, will require policies of national governments. And, at present, there is the need for U.S. government policies to deal with the realities of the world economy, which are drastically different from the 1930's or even the 1950's. The Foreign Trade and Investment Act of 1973 is an effort to provide a framework for dealing, specifically, with the causes of America's deteriorating position in international economic relationships.

The Hartke-Burke bill would provide government regulation and restraint of the export of American technology and capital—regulation not elimination. It would remove the tax subsidies and other incentives that encourage U.S. companies to establish foreign subsidiary operations.

It would also set up a "sliding-door" limitation on most imports, except on those goods that are not produced here or that are in short supply—a "sliding-door" limitation, not a high wall to block out imports. Quotas would be related to the level of American production. In fact, imports would be guaranteed a share of the American market and would be permitted to increase as American production increases. But imports would not be permitted to flood American markets and quickly wipe out American industries.

President George Meany has summarized the AFL-CIO position in these words:

"We of the AFL-CIO seek a strong and growing American economy that is an integral part of the world economy. We are not isolationists and have no intention of becoming isolationists. We are convinced that the practical alternative to senseless isolationism is the adoption of realistic government policies to meet America's needs in the world economy of the 1970's.

"We know that a depressed American economy would not merely depress the condition of American workers and American business. It would also depress the economies of the rest of the world.

"A prosperous America is essential for the prosperity of the nations with whom we have continuing economic relationships. One of the things that is needed for a prosperous America is updated, modernized policies to deal wtih the realities of international trade and investment."

APPENDIX

AFL-CIO STATEMENT ON MULTINATIONALS

A. Labor Costs and Productivity and Trade
B. Lower Trade Barriers at Home—Higher Trade Barriers Abroad
C. Regulation of U.S. Investment Abroad—Recent Changes
D. Regulations and the Export of Technology
E. Tax Breaks
F. Capital Controls—Regulation of Money Flows Abroad
G. Some Examples of Multinational Firms
H. Some Examples of Job Exports Related to Multinational Firms
I. Some examples of Regulations on Foreign Investment Affecting Trade, Protection, Exports and Technology
J. "To DISC or Not to DISC" Article from National Industrial Conference Board "Now American Exporters Can Help the Government by Not Paying All Their Income Taxes" Advertisement
K. "Controls on Capital Flows, the Recent Escalation—*Economic Outlook* Organization for Economic Cooperation and Development, December 1972
Table I.—Plant Outlays—U.S. Foreign Affiliates
Table II.—Selected Leading Non-Agricultural Commodities in U.S. Foreign Trade
Table III.—Employment Changes in Four Key Manufacturing Industries
Table IV.—Employment Changes in Selected Industries

APPENDIX A

American labor has cooperated and will cooperate to improve U.S. productivity. But labor costs and productivity alone do not explain the changes in America's position in international trade and payments. No amount of effort to improve productivity can be meaningful if U.S. firms merely transfer gains at home to foreign countries.

Frequently there are attempts to explain all of the deterioration in the U.S. trade balance simply in terms of differences in hourly wage rates or overall labor costs between the U.S. and other countries. But buyers do not purchase hourly wage rates—they buy products at a price. The price is importantly affected by profit margins, taxes, and such costs as raw materials and energy (electricity or coal, etc.) per unit, as well as the cost of labor per unit.

Foreign trade economic competition does not center on prices alone. Product design, for example, is of great importance in the export and import of many items. Other nonprice factors in world trade include patent and licensing arrangements and the servicing of foreign purchased equipment and government policies of every nation.

The labor cost per unit, therefore, is one of several different economic factors. Moreover, the unit labor cost is the result of productivity (output per manhour) and the hourly compensation of employees, so that the combination of high wages and high productivity can result in low unit labor costs. Indeed, America's traditional prowess in world trade was largely based on high wages, combined with high productivity—on technology, efficiency of operations, manpower skills, large volume of output and a highly educated population—as well as on the availability of raw materials and sources of energy. However, much of America's technology and know-how has been exported.

As Professor Peggy Musgrave of Northeastern University explained in a paper prepared for the Joint Economic Committee last year, "It should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and export. The principal difference lies in the effects on labor productivity and shares of national income. Foreign investment may enhance the private profitability of U.S. capital, but it is likely to reduce the real wage to U.S. labor as well as the Government's tax share in profits."

New factors, like the internationalization of technology, the multinational corporations, managed national economies with subsidies for exports and barriers to imports, have changed the trade relationships of labor rates and unit costs in recent years.

Illustrative of this is the fact that the pace of productivity advance in the American economy in 1947–1971 shot up rapidly to a yearly rate of 3.2% per year in 1947–1971 as against 2.2% per year in the previous 28 years. But at the same time, the transfer of American technology and know-how contributed substantially to the sharp advance of productivity in other countries, particularly since the rise in those countries started from a much lower level.

There has been a sharp change in the 1960s and 1970s, as the transfers accelerated. In many industries and products, the American lead in productivity—which enabled highwage U.S. industries to successfully compete from the U.S. and within the U.S. with foreign imports and with exports to foreign countries—has been reduced or eliminated.

Where U.S. firms have transferred American technology and know-how and capital—and therefore productivity—to their foreign subsidiary plants, efficiency has been improved abroad, not in the United States. The investors in the firms benefit, but the U.S. economy and the U.S. society does not benefit in full measure. Multinational corporations have substantial portions of their assets in facilities spread through numerous countries. They can manipulate their production and sales, internationally, with U.S. technology. They can manipulate the location of their operations, depending on labor costs, taxes and foreign exchange rate. They can juggle exports, imports, prices, dividends and currencies—from one country to another, within the corporate structure.

With plants and other facilities spread through numerous countries, multinational firms can and do juggle the production of components and assembly operations to achieve maximum use of low-wage labor, using modern U.S. technology and operating at or close to U.S. productivity levels. This makes the details of costs and productivity difficult to trace.

Fortune magazine reported in September 1968: "When it (the multinational company) operates in many different markets with varying labor conditions, market demands, money market rates, tax laws, etc., the corporation finds multiplying opportunities to buy cheap and sell dear if it can closely coordinate all parts of its operation. Carrying multinationalism to its logical extreme, a corporation will concentrate its production in the area where costs are lowest and build up its sales where the market is most lucrative. Thus, some U.S. electronics manufacturers are using plants in the Far East to make components for equipment sold in the U.S. market and the apparel industry is, for the first time, hinting at farming out some of its production." By 1972, as electronics, apparel, shoes, calculators and advanced equipment poured into the U.S. from some of the lowest wage countries of the world, America's trade deficit was worsening from the swift interchange of multinationals—buying cheap abroad and selling dear at home.

Fortune in 1968 also pointed out that multinational firms transfer goods and money from one country to another for the corporation's tax or income advantages—not necessarily in a way related to labor or other costs of producing goods or to the needs of any nation: "The multinational firm can also adjust prices on these intra-company sales according to a deliberate plan. For example, if a country is in foreign exchange difficulties, it may earmark scarce exchange for imports but not allow dividends to be remitted abroad. A multinational company could simply 'take out' its dividends by raising prices on intra-corporate sales proportionately. Transfer prices are also a useful device for keeping down the overall corporate tax liability. Subsidiaries can be instructed to set high prices on intra-corporate shipments to high-tax countries, low prices on those to low-tax countries."

By 1973, the Tariff Commission verified the existence of such arrangements in long-range planning in such international systems arrangements for the more sophisticated firms. The details of labor cost and productivity factor is hidden within overall corporate accounting systems, not revealed to the public or to government experts.

The few studies that have been made, however, tend to show that the U.S. productivity and labor cost advantage has been transferred through operations of multinational firms.

The Tariff Commission's 1973 report on direct investments of some multinational firms in seven countries in relation to overall U.S. productivity showed that the U.S. work force generally is not laggard in productivity or unit labor costs the report says:

"All firm data for the United States show unit labor costs to be generally lower" than in five of the seven countries where the Commission studied some foreign direct investment. "This is a direct consequence of the U.S. worker's productivity edge, which is not quite offset by higher wages than those paid in Canada and Europe."

The Organization for Economic Cooperation and Development's publication, *Economic Outlook* for December 1972, shows American unit labor costs have risen less rapidly than in many competing nations in the last few years. But those nations have continued to improve their trade surplus with the U.S. and continue to attract American investments and expand existing American investments in their countries by the most advanced of all American industries.

The Tariff Commission report indicates that hard-working foreigners on assembly and production lines abroad do not explain all the differences in labor cost factors. Foreign subsidiaries of U.S. multinationals "tend to employ more nonproduction personnel than most foreign firms. U.S. companies are famous for being top-heavy with management and scientific technological manpower."

These general statements tell only a tiny part of the story. When a firm licenses production abroad, no data are reported on the productivity impact, because there have been no reports required in detail that could reveal these figures. What some companies have done is to transfer parts of production to low wage countries where the cost advantage is both in low wages and high productivity. The result of this shows up in the Commission report on the experience of Mexico and Brazil, where U.S. firms have increasing investment—behind the closed economies of those two low-wage countries.

Nor have the transfers of production to other countries improved the well-being of the people of those countries sufficient to create enough markets for American exports—even as income rises in foreign countries. There is some indication of this in the Tariff Commission study: "In setting wage rates, the companies almost invariably approximate local standards—sometimes paying a little more, sometimes a little less—but they always show greater productivity than local firms, so that unit labor costs tend to be much lower than for all firms in the host country. Theoretically, the higher productivity of the foreign worker in the NMC-owned plant abroad should justify a higher wage than the national average for his trade or industry."

This and other statements in the report suggest some reasons that foreign income levels of ordinary working people have not advanced rapidly enough to meet the needs of world market for the growth of consumer's purchasing power to buy the products that technology and productivity can turn out.

Thus the American worker is told to improve productivity so that his wages can improve, but the American firm abroad does not—for a variety of reasons—even pay the lowest wage workers in the world as much as their gains in productivity. Thus no amount of attention to productivity and unit labor costs will solve America's problem as long as multinational firms and the world's governments operate differently with different rules. The advantage is to the firms' managers and stockholders in the short run—but to no one's advantage in the long run.

TRADE EFFECTS

Therefore, while every dollar invested abroad and every transfer of technology have not had adverse impacts on the U.S., much of this change has resulted in the deterioration of the U.S. trade balance.

In her paper for the Joint Economic Committee of the Congress, Professor Peggy B. Musgrave also explained that:

"It is possible that production by U.S. affiliates abroad, particularly in manufacturing, may serve to displace U.S. exports and even domestic sales in the United States. This displacement effect is the more likely since those corporations accounting for the bulk of manufacturing investment abroad are also major exporters. Moreover, sales of manufacturing subsidiaries abroad are now two to three times the level of U.S. exports of manufactured products."

What finally shows up as U.S. exports and imports is, to an increasing degree, the result of intra-corporate decisions, made by the private managers of U.S.-based international companies for the private advantage of the firm.

A multinational corporation can produce components in widely separated plants in Korea, Taiwan and the U.S., assemble the product in a plant on the Mexican side of the border and sell the goods in the U.S.—perhaps with a U.S.-brand name. Or the goods produced in foreign subsidiary plants are sold in foreign markets, in competition with U.S.-made products.

The effect on trade from the operations of multinationals has been only partially explored. But, even the Tariff Commission supports these views. The report states that there is "prima facie evidence of an erosion of U.S. markets by foreign sales of MNC affiliates abroad."

This very minimal report of the Tariff Commission is based on theory and estimates. We think the case is clear from other Commerce Department data on direct investment and trade. As this statement indicated earlier U.S. firms invested in foreign factories and equipment five times more in 1971 than in 1960. They expanded abroad every year, but in 1960 it was $1.4 billion and in 1971 $6.8 billion. Most of these outlays were in chemicals, machinery and transportation equipment (autos, aircraft, etc.). Their sales abroad by U.S. companies' foreign affiliates increased very rapidly—more rapidly than sales from the United States. The U.S. lost its share of export markets (not included exports to the U.S.) during this period. The decline was great in chemicals—29.6% to 19.9%, in electric machinery from 28.2% to 21%, in non-electric machinery from 32.7% to 25.5%, and in transport equipment from 33.2% to 29.5%. In other manufactures it went down from 17.6% to 12.2%.

U.S.-based multinationals accounted for 10% of France's exports in 1970—which have been improving—and provided $3.6 billion to the French balance of trade, according to former Ambassador Arthur K. Watson in *Commerce in France, 1972*. Studies by the Council of Americas in the 1960s say that U.S.-based multinationals account for 40% of Latin America's exports. Many of these Latin American imports into the U.S. as well as those from Japan, Korea, Canada, Taiwan, Germany, France, and other countries now bear American brand names—often produced by U.S. firms' subsidiaries or licensees abroad.

In some of the nations where U.S. direct investment and licensing have expanded rapidly, exports shot forward in the 1960s more rapidly than U.S. exports. In manufactured goods, Germany's exports rose over 200%, French exports rose 160%, Belgium and Luxembourg over 200%, the Netherlands over 200% and Italy 450%. Similar Japanese manufactured exports rose almost 500%. During this period U.S. exports rose 123%.

Elsewhere, the report seems to go much farther:

"An immense amount of world trade is generated, outside the United States, by the MNCs. As an indicator of how important these flows are, available data show that majority-owned affiliates exports to countries other than the United States were an estimated $33 billion, compared with exports to the United States of $10 billion and local sales of $118 billion" (page 207).

Since that estimate—$43 billion worth of non-U.S. trade in 1970—does not include output from plants that were only partially owned or output from licensees in countries like Japan, it is clear that U.S.-based multinationals create more exports from their foreign operations—including exports back to the United States—than the United States exports. Therefore, efforts to expand exports from the U.S. meet increasing competition not only from foreign firms, but also from U.S. firms abroad.

In many industries, these world-wide shipments of multinational are almost totally within a single corporation's world-wide network. For example, the Tariff Commission report included some estimates that virtually all of the U.S. trade of farm equipment and transportation equipment was from one part of the U.S. multinationals' corporate network to another part. This is not competitive trade in the sense that most Americans think about competition.

APPENDIX B—LOW TRADE BARRIERS AT HOME—HIGH BARRIERS ABROAD

The U.S. is now confronted by complex governmental economic arrangements in other countries to spur exports (direct and indirect subsidies, etc.) and to bar or hold down imports (direct or indirect barriers). Examples include Japanese quotas, licenses in European countries to import specific products, and laws in many nations which require foreign subsidiaries to produce a certain amount of goods for export, as in Mexico, Brazil and Spain.

Many U.S. firms with foreign operations emphasize the need to reduce U.S. trade barriers, but seldom tell the U.S. public about their use of these and other foreign barriers as a sword and a shield against the U.S. economy from abroad. Details and facts are labeled "foreign policy confidential" or "business confidential." Most Americans therefore cannot get the facts, while the firms cry "trade war" or "retaliation" whenever U.S. trade restrictions are posed.

In 1970, for example, there were full page advertisements by U.S. firms which raised the threat of a trade war if the proposed trade legislation was passed. Many of the companies which signed the ad were even then operating behind complex barriers to trade erected by nations throughout the world. In Japan, for example: Caterpillar Mitsubishi was producing in 1970 behind a multiplicity of administrative controls on imports . . . and a licensing system covering all imports. It produced in Japan for the Japanese market. New Caterpillar plans to send a small tractor, made by Caterpillar Mitsubishi, to the U.S.

IBM was one of the few firms with 100% ownership in its Japanese subsidiary in 1970. Computer exports from the U.S. met barriers to trade—requiring import certificates for quotas from MITI, according to *Forbes* magazine in May of 1971.

Chrysler-Mitsubishi was producing the Dodge Colt in Japan for the West Coast market of the U.S. in 1970, yet most U.S. cars still cannot easily surmount the maze of barriers into Japan. The list could go on indefinitely, but in 1973, the issue is still not solved. As company after company met barriers to trade from the U.S. to Japan, it merely found a Japanese partner, a Japanese licensee or some other Japanese source to produce in Japan—behind the barriers. Meanwhile it claimed publicly that U.S. labor costs were too high, facing the transfer. The route to Japan is often virtually closed even in 1973. Quotas still exist for many products, including integrated circuits and leather. But the route to the U.S. is still wide open.

In Europe, a business magazine *Vision* reported in April 1971 that "The major reason for manufacturing in Europe is that European governments prefer to place orders with a local U.S. subsidiary rather than going in for straight imports." Country after country has non-tariff barriers to trade within the Common Market. Yet, U.S. companies which adjusted to the Eropean government preferences screamed "trade war" when Congress tried to act in the U.S. interest in 1970.

Recent reports show that the situation has grown worse in many areas. In the so-called non-industrial countries, like Spain, Brazil and Mexico, the law requires production in those countries for local sales and requires exports from those countries by foreign investors who produce there. In December, 1972, the *New York Times* reported that auto manufacturers were required to have "only 50% of their production with Spanish made components provided that the original investment is more than $158 million of fixed assets and two-thirds of the production is exported."

The Mexican government announced in October 1972 that foreign investors would still be required to fit their investments into the Mexican government's national policy. For example, President Echeverria on October 23, 1972 issued an announcement on automobiles making it the "obligation of automobile manufacturers to employ a minimum 60% of Mexican-made components in car production."

The Brazilian government recently decreed that foreigners who wish to invest must bring into Brazil their fully-operating plants that have been producing efficiently in a developed country before the Brazilian government will permit investment. Then the production must be exported from Brazil except for the amount the Brazilian government allows to be sold in the Brazilian market under quota.

The list could be longer, but much of the information needed is available only to companies and governments—not to labor unions. But the facts are clear: U.S. firms, producing in other countries, for reasons that seem pressing in their own interest, expand in those countries behind foreign trade barriers and follow those countries' rules requiring exports to the U.S. Thus they operate as both a sword and a shield against expansion of U.S. trade.

APPENDIX C—U.S. INVESTMENT ABROAD IS REGULATED BY FOREIGN COUNTRIES

Trade rules and regulations are only part of the story of America's changing economic circumstances as foreign countries regulate investment in their countries. Foreign nations are sovereign states. They have the right to pass new laws. U.S.-based firms must meet those regulations abroad.

When Mexico announced a 17-point program for foreign investors, the *New York Times* headlined its story on November 24, 1972, "U.S. Investors Accept Mexico's Policy." The story began, "The Mexican Government is making it clear that it will want greater Government participation with foreigners who want to invest here. But after a month of major policy statements to that effect, key American business spokesmen say they still believe Mexico remains an attractive investment possibility." A description of the program is attached in Appendix I. There were no full-page ads in U.S. newspapers about the problem, certainly no ads suggesting "retaliation" against Mexico.

Likewise, when Canada decided to screen foreign investments last year, no outcry greeted the move.

Australia recently announced new curbs on foreign investors. *Business Week* headlined its story, "Australia; the picnic is over for foreign business. Australia, with $12 billion foreign investment, one third from the U.S., has decided to make sure it owns its own future." *Business Week* reported that "U.S. multinational companies with interests in Australia profess to be unworried—although they are watching the new government carefully. The concern over local participation is reasonable and we welcome it," says a spokesman for American Metal Clima, Inc. AMAX has a 25% share of the vast Mt. Newman iron ore fields in Western Australia, where development is expected to cost $600 million. American Smelting told an Australian Senate select committee last year that Australian participation in its holding company had grown from 5% to 39% in the past 20 years. "And the company has no U.S. directors," a spokesman adds. (*Business Week*, January 20, 1973).

Time magazine reported on November 13, 1972, "Country after country is imposing or contemplating restrictions on American investment that it was once pleased to get."

Every country in the world, it seems, has a right to have a sovereign government, to change its regulations on investment from abroad or to abroad, but any suggestion that the U.S. change it rules is greeted by howls of dismay by the U.S. multinationals. Multinationals have not emphasized these problems for the U.S. because they oppose new U.S. legislation. But for the U.S. not to act, in the face of this sweeping change, is to make the American economy a helpless giant, pummeled by adverse changes.

Companies abroad have to conform to local rules, of course, Among the more enjoyable rules are investment incentives through taxes. Some nations have tax free holdidays to attract investors, other have special programs for areas with high unemployment.

The U.S. has various investment incentives, too, just as it has regulations. But every proposed restrictive change in U.S. law is opposed by the same companies that have been able to adapt to the massive changes now occurring around the world. Each company has a different problem—and each company represents its individual view to the Congress. But the U.S. economy at home is not treated as an entity in their statements, except as an extension of their multinational corporate interest.

The American workingman believes—as with other nations—that we have the right to own our own future.

APPENDIX D—TECNOLOGY REGULATIONS

U.S. policies have encouraged the export of American technology, investment and jobs, while foreign countries have tried to encourage the entry of technology, as well as the promotion of production and full employment within their borders. International as well as domestic economic relationships today are strongly influenced by political and governmental decisions.

Perhaps the best description of the mission impossible for technology change is in a statement by a West Coast businessman, Mr. Nathaniel Brenner, in *Chemical and Engineering News:* "For many years our advanced products enabled us to compete in international markets despite high prices .and high wage rates).

"What has happened in the 1960's and continues is that *American corporations*, via licensing agreements, foreign plant construction, and other multinational arrangements, have given away for a very small portion of real cost and value, this advanced technology and with it, the jobs it created. When a multinational corporation licenses a product abroad, it gives away the technology created by Americans educated at public expense, and the American jobs which produce that product, for the 5 or 10% profit represented by the license fee or return on invested capital. Result—the American worker loses a job, the U.S. loses an export product and becomes an importer of that product, but the corporation still nets 5 or 10%. Result—unemployment plus balance of payments problems. Naturally, the foreign producer can sell for less—he hasn't had to invest in the education, the R&D, or the wages which support the 'American system'."

High technology is not solely the property of sophisticated, capital-intensive industries. It is also critical to labor-intensive industries which one does not usually consider as utilizing advanced technology. For example, the American textile industry is among the leaders in applicants for new patents. The garment industry now includes laser beams to cut garments. The glass industry has new methods of drawing glass. And agricultural production is constantly improved by scientific development. U.S. rice production, for example, has mechanical and chemical technology for planting, washing and processing rice that depends on scientific advances. Chicken farming became an important issue in the 1960's when America's technological know-how made it possible to freeze and ship poultry in mass-produced quantities.

There is no measure of this change. The recent Tariff Commission report on multinational firms merely shows that returns to the U.S. are 10 times greater than the payments from the U.S. in royalties and fees. This soon shows up in exports to us. The Japanese export surplus with the United States can be accounted for in part by the fact that American firms, unable to invest in Japan, export their technology and license their American brand production to the Japanese for sale in the U.S. market, thus more and more products are made in Japan with a U.S. label.

APPENDIX E—TAX BREAKS THAT PROVIDE NO ADVANTAGE TO THE U.S.

The multinational firms and many analysts have objected to the tax proposals of the Foreign Trade and Investment Act of 1973. In our view, a healthy United States economy, not the short-run advantages of multinational firms wherever they may be, is the goal of legislative proposals. The Hartke Burke bill would not repeal the many foreign advantages available. It merely seeks to rid the U.S. law of gimmicks.

The elimination of tax subsidies for corporations investing overseas and profiting from the variety of gimmicks is a major goal of the bill. The tax deferral gimmick, which permits U.S. corporations to pay no U.S. income taxes on the profits of their foreign subsidiaries until such profits are brought home—which may be never—and the foreign tax credit scheme, which permits corporations to credit taxes paid to foreign governments, dollar for dollar, against their U.S.

liability, should be ended. These loopholes cost over $3 billion in annual tax revenues. And more important these provisions are contributing to the export of American jobs, the erosion of the nation's industrial base and the blighting of American communities. This is the policy of the AFL-CIO—tax justice for America.

A third gimmick, the Domestic International Sales Corporation (DISC) permits corporations to create export subsidiaries in order to defer taxes—perhaps indefinitely—on export income. Its revenue cost to the U.S. is currently some $200 million per year and the loss is expected to rise continually. By 1980, DISC is estimated to cost $600 million in revenues foregone. Yet no evidence has ever been presented in support of the contention that this program would have any beneficial impact on the nation's disastrous position in world trade In fact, to demonstrate how futile that change was, the report of the National Industrial Conference Board in August 1972 shows that only six executives of 105 responding indicated that they expected *any* change in their corporate strategy because of DISC—or devaluation or other government actions. The article is attached as Appendix J. The Commerce Department's *Survey of Current Business* asked U.S. firms with foreign affiliates to estimate the effects on their spending abroad because of economic policy measures started in August 1971. 305 out of 325 U. S. companies responded that there were "no identifiable direct effects on their affiliates' capital expenditures." The remaining 20 companies reported a mixture of effects, in some cases lowering and in other cases raising planned expenditures. In sum, it appears that other factors, such as anticipated demand, profitability, and availability of financing have played the more identifiable role in investment decisions." (September 1972, p. 18)

While the U.S. exports and foreign investment decisions get no realistic advantage, the firms get a tax break. The attached newspaper ad says "Now American exporters can help the government by not paying all their income taxes." Most Americans would like to be so helpful.

Appendix F—Capital Controls

Most Americans are unaware that most countries of the world have far more extensive controls on capital flows than the United States. U.S. multinational firms and banks complain about United States controls, but accept and adjust to the rising number of controls in other countries. As other nations extend controls already available under their laws or put new controls into effect to try to maintain their national economic health, the United States dollar suffers from a double effect: U.S. capital controls are weak or out of date, and the Administration has relaxed those that are in existence. Recently, the Administration announced it would phase out capital controls on foreign investment on interest equalization. Meanwhile, other nations act to influence the flows of money that might flood their economies or rush from their countries.

So many changes have occurred in 1973 that no complete list is available. The attached list (see Appendix K) includes only controls adopted in 1971 and 1972 by the world's industrial countries, members of the Organization for Economic Cooperation and Development. These examples show how commonplace controls are whenever foreign nations seek to protect their economies. The February 25 *New York Times* reports that Japan has exchange controls despite her strong reserves, despite her trade surplus and her industrial strength.

DEVALUATION OF THE AMERICAN DOLLAR

The major trouble, by far, is that American corporations and banks now have huge and increasing investments in foreign countries. They keep their American dollars there to expand their foreign holdings and, frequently, can avoid paying U.S. taxes on their foreign-earned profits.

In the summer of 1971, for example, some of these U.S.-based multinationals—as well as foreign companies and speculators who hold dollars—became worried about America's growing import-export deficits and the value of their American dollars. They began dumping dollars and buying German marks and other currencies. In cold fact, U.S. corporations and banks put profits ahead of patriotism, selling their country's currency in order to make swift profits for themselves.

Similar developments occurred in early February 1973, with the dumping of billions of dollars to buy marks and Japanese yen.

The operations of these multinational corporations, international banks and big speculators have become so powerful that they can move billions, with ease, beyond the reach of the central banks of governments. Frequently, a telephone call is sufficient to transfer huge sums of money from one country to another.

The *Wall Street Journal* of February 13, 1973 (copy attached), reported on the 930-page study by the U.S. Tariff Commission. The newspaper reported:

"Multinational corporations control such vast quantities of money that they can precipitate international monetary crises by moving only small portions of their funds from country to country, a government study concludes.

"The big companies and banks can outgun even the world's central banks in international currency dealings, the massive study by the U.S. Tariff Commission contends . . .

"In assessing the aims of big companies in currency crises, the report offers two possible conclusions: either that the multinationals 'react protectively' with moves to protect the value of their assets or, alternatively, that, those multinationals 'hardly react at all, while a small minority, capable of generating heavy, disruptive movements of funds, do so.' The study said the latter group includes companies that may actually 'speculate' in the sense of betting on exchange-rate changes in hopes of a swift profit."

Regardless of motive, these actions taken for the private advantage of corporations and banks have undermined the world position of the American dollar.

These actions are not regulated by the U.S. government. And the multinational firms and international banks go their own way, juggling production and prices and currencies across national frontiers.

So in 1971 and once again in 1973 the speculators—both U.S. and foreign—gambled and won. They made their big profits, forced the U.S. to bail them out. The U.S. currency suffered another blow and the rest of America will pay the price.

The recent devaluation adds somewhat to inflation at home but will have little, if any, beneficial effect on America's deteriorating position in the world economy. The only way to cure the basic problem is for the U.S. government to adopt and vigorously pursue a new policy on international trade and investment.

Both devaluations were actions taken in crisis. They are not a policy. What is urgently needed is a comprehensive policy of capital controls to meet America's needs in the world of the Seventies.

[From the Wall Street Journal]

CURRENCY CRISES CAN BE EASILY TRIGGERED BY MULTINATIONAL FIRMS, U.S. STUDY STATES

WASHINGTON.—Multinational corporations control such vast quantities of money that they can precipitate international monetary crises by moving only small portions of their funds from country to country, a government study concludes.

The big companies and banks can outgun even the world's central banks in international currency dealings, the massive study by the U.S. Tariff Commission contends. And though the study absolves most multinational concerns of "destructive, predatory motives," in their currency dealings, it says that much of the speculative money surge during currency crises, such as the current turmoil in exchange markets, stems from the multinationals.

THE "LION'S SHARE"

The 930-page study of the economic impact of multinational concerns on trade, investment and employment was made by the Tariff Commission at the request of the International Trade subcommittee of the Senate Finance Committee. It's certain to add fuel to the growing debate in Congress on the effects of the multinationals, which have been under attack by organized labor as "exporters" of U.S. jobs and technology.

The study estimates that some $268 billion of short-term liquid assets were held at the end of 1971 by "private institutions on the international finance scene," and that the "lion's share" of this money was controlled by U.S.-based multinational companies and banks.

The $268 billion, the study reports, "was more than twice the total of all international reserves held by all central banks and international monetary institutions in the world at the same date." It adds: "These are the reserves with which the central banks fight to defend their exchange rates. The resources of the private sector outclass them."

Due to the immensity of the multinationals' assets, "it is clear that only a small fraction . . . needs to move in order for a genuine crisis to develop," the Tariff Commission concludes. This money "can focus with telling effect on a crisis-prone situation—some weak currency which repels funds and some strong one which attracts them." That's what has happened in the past two weeks as speculators dumped dollars and bought German marks and Japanese yen in hopes of profiting on future changes in their exchange values.

Since only a "small proportion" of the multinationals' money is needed "to produce monetary explosions," the study says, "it appears appropriate to conclude that destructive, predatory motivations don't characterize the sophisticated international financial activities of most multinational corporations, even though much of the funds which flow internationally during the crisis doubtlessly is of multinational corporation origin."

TWO POSSIBILITIES

In assessing the aims of big companies in currency crises, the report offers two possible conclusions: either that the multinationals "react protectively" with moves to protect the value of their assets or, alernatively, that most multinationals "hardly react at all, while a small minority, capable of generating heavy, disruptive movements of funds, do so." The study said the latter group includes companies that may actually "speculate" in the sense of betting on exchange-rate changes in hopes of a swift profit.

The study found that U.S. concerns invest abroad primarily to reach new markets, rather than to find lower-cost production. The search for low-wage labor is a "secondary" consideration except in a relatively few industries, including consumer electronics, footwear, toys and apparel, it says.

The study doesn't resolve the question of whether multinationals have caused major job losses in the U.S., as American unions contend. It presents three alternative explanations—two of which will please unions and one which companies will like.

The commission estimates that the presence of American-owned plants abroad represents a net loss of 1.3 million jobs in America if it's assumed foreigners would otherwise import the plants' entire output from the U.S. If foreigners imported only half of such output, and produced the rest themselves, the job loss would be calculated at 400,000. A third set of quite different assumptions produces an estimate that the multinationals have produced a net gain of roughly 500,000 jobs in the U.S.

The study concludes that the multinational corporations "played no role" in the sharp deterioration of the U.S. balance-of-payments position during the late 1960s.

APPENDIX G—SOME EXAMPLES OF MULTINATIONAL FIRMS

TEXTRON, INC.

Textron, Inc., the 72nd largest industrial corporation in the United States, had sales in 1971 of some $1,604 million. With assets of $973 million, Textron employed some 62,000 people worldwide in 1971.

Data obtained from *Moody's 1972 Industrial Manual* reveals that from 1965 to September 1971 Textron bought or acquired controlling interest in some 32 companies. Textron breaks its industrial products into four basic groups:

[Dollar amounts in thousands]

Group	1971 sales	Percent of total sales
Aerospace	$556,559	35
Consumer	499,356	31
Industrial	311,096	19
Metal products	236,702	15
Total	1,603,713	100

Partial list of companies and products by group:

Aerospace

Bell Aerospace—rocket engines, missiles and spacecraft systems, vertical lift aircraft, aircraft landing systems, etc.

Bell Helicopter—Military and commercial helicopters.

Dalmo Victor—Electromagnetic defense systems.

Consumer

Gorham—Sterling, china, crystal, etc.

Eaton Paper—Stationery, etc.

Homelite—Power tools, etc.

Polaris—Snowmobiles, parts, etc.

Sheaffer Pen—Writing instruments.

Maico—Hearing aids.

Shuron/Continental—Eyeglasses, optical equipment.

Speidel—Watchbands, jewelry.

Talon—Zippers, buttons, etc.

Industrial

Burkart/Randall—Auto parts, natural and synthetic cushion material, plastics, etc.

Campbell, Wyant, and Cannon—Automotive engines and die cast parts.

Fafnir—Bearings.

Fanner—Abrasives and grinding wheels.

MB Electronics—Measurement instruments, digital control systems.

Spencer Kellogg—Chemicals and oilseed products.

Sprague—Gas meters, containers and fittings.

Walker/Parkersburg—Raceway systems, pre-engineered metal buildings.

Metal Products

Bostitch—Staplers, staples, etc.

Bridgeport Machines—Milling machines.

Pittron—Heavy duty rolling mills, castings, etc.

Jones and Lamson—Lathes, grinders, etc.

According to Moody's I.M., Textron operates plants in the following countries:

Country:	*Number of plants*	Country—Continued	*Number of plants*
Hong Kong	1	Mexico	1
Italy	1	Netherlands	2
Luxembourg	1	N. Ireland	1
Australia	4	Puerto Rico	1
Belgium	1	Spain	1
Canada	12	Switzerland	1
England	4		
Germany	7	Foreign plants (1971)	38

"MADE IN THE WORLD—BY PEOPLE"

"That's the stamp we'd like to put on our products. And the one we'd like to see on everybody else's. Because at Textron we believe we should think in terms of one, worldwide economy."

—Wall Street Journal 12/4/72

Nice talk from a company so dependent on United States' taxpayers money that it consistently ranks in the top 15 defense contractors.

Textron, Inc.'s position in the Pentagon's list of the 50 top defense contractors:

Year and rank—Contract volume:	*Millions*
1967, 11	----
1968, 13	$501
1969, 16	428
1970, 13	431

"The Pentagon's listing of top defense contractors for fiscal 1970 reflects the declining fortunes of many aerospace companies.

Not all aerospace companies were losers, however. Textron, Inc., whose Bell Aerospace Corp. subsidiary manufactures the widely used UH-1 helicopter . . . awards rose from $428 million to $431 million."

—Business Week 11/14/70

"Textron's biggest oney earners continue to be consumer products like watchbands (Speidel), snowmobiles (Polaris) and chain saws (Homelite). But against all odds, Textron's aerospace division showed no decline at all, as *growth chiefly in Minuteman strategic systems* offset lower helicopter sales (Bell).

Textron has turned its attention overseas. 'We're not going to Europe to try to do something big to get out from under the Justice Department. We're not out to acquire big companies or basic industries or to be the biggest employer in a major city. We're starting small with $10-million to $20-million companies . . . *we need to become a multinational company, a planetary corporation in this decade.*' Textron President, G. W. Miller."

—Forbes 12/15/70

"*Miller thinks of Textron as a small company,* despite the $67 million it earned in profits last year on $1.6 billion in sales and $976 million in assets.

Miller says, 'I don't think there would be an objection to Textron's strengthening itself through acquisitions to participate in the American or world economy.'

'We're a producing company,' he says, 'and we're looking at a trend where *the U.S. is less and less a producing country. It's a service country. So in a sense* we have some skills that are not really going to be required in the major growth pattern in the U.S.'

'We're a long way from being a broadly based transnational company,' he says, 'but our ambitions lie that way.'

So far, *Textron's foreign commitment is small . . . But that commitment is growing. For instance, Textron paved the way for the entry of its Bostitch subsidiary into the Eastern European market.*

But Miller has *no intention of simply extending Textron's domestic business overseas.* He expects to acquire new lines, based in Europe, that will operate on a worldwide scale."

—Forbes 9/15/71

ITT *

". . . our policy of diversified activities carried on in various important economies around the world helped make us hesitant to the cyclical pressures of any given area."

. . . banks and other fiduciaries as a group are the largest holders of ITT common stock and at the end of 1970 held more than 45% of . . . outstanding common stock. The 30 largest banks in the nation held 23 million shares. 392,000 employees

". . . in every instance . . . management has brought competitive conditions and strengths to the industries we have entered."

DIVISIONS AND SUBSIDIARIES

1. Telecommunications:

ITT World Communications, Inc.
"Our leading Spanish company"
"One of our French companies."
"Our principal Italian company."
"Our Belgian company."
"ITT's European laboratories".
"Our Puerto Rico telephone operating subsidiary".

2. Industrial Products:

Automotive
Railroad
Aviation
Communication
Electronics
Lighting
Building
Chemical
Refining

Consumer Products:
Radio
TV
Phonographs
Tape Recorders
Refrigerators
Home Freezers
Household Appliances

ITT Intermetall—Germany.
ITT Thompson Industries—Mississippi.
ITT Nesbitt—industrial heating and air conditioning—U.S.

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*From annual report 1970.

Industrial Products Group—Europe.
  Alfred Teves Gmbh—Germany—auto disc brakes.
    Stenberg—Flygt AB—industrial pumps.
    Naples—"components factory"
    Nuremberg components factory.
    "Semi-conductor division"—England.
    "Leading German company"—color TV picturetubes.
  EUROSET TV : Austria, France & Germany.
  ITT Consumer Products—Europe
    Graetz radios—Germany.
    Graetz radios—England.
    Manufacture of consumer radios—Zambia.
  3. Consumer and Business Services :
  ITT—Avis (itself and international).
  ITT—Canteen Corp.
  "Several new gourmet restaurants to its existing group."
  ITT Globe—Europe : plumbing fixtures.
  ITT Blackburn—(U.S. ?) underground electrical power connector.
  Grinnell Corp.—sprinkler systems and pipe fittings.
  ITT—Continental Baking.
  Morton Frozen Foods Division.
  Hostess snack cakes.
  "A number of European food and snack companies entered ITT System in 1970."
  Gwaltney, Inc. of Virginia—Smithfield Ham.
  ITT Levitt :
    Levitt Multihousing Corporation.
    "Building systems subsidiary"—Battle Creek.
    "Mobile modular housing—West Coast.
    ITT Levitt Development Corp.—recreational properties.
    ITT Sheraton Hotels.
    ITT Service Industries Corporation. APCOA.
  ITT Publishing Activities.
    Howard W. Sams & Co. Inc.
    Bobbs-Merrell Company Inc.
  ITT Educational Services, Inc.
  Pegier—French business school complex—direct education.
  ITT Data Services. Sweden, U.K., Brazil (2)
  Diversified financial services companies 20 operating units :
    ITT Aetna, parking facilities, taxicabs in D.C., motels.
    ITT Thorp.
    Industrial Credit Company.
    ITT Hamilton Life.
    ITT Midwestern Life.
    ITT Life of New York.
    Abbey Life of Canada.
    Monitor Group—Canada (fire & casualty ins.).
    ITT Hamilton Mgmt. Corp.—mutual funds.
    "Financial services"—Great Br., Ger., Italy, Netherlands.
    The Hartford :
      Special Accounts Insurance Department.
      Group insurance to 11 labor unions.
  4. Natural Resources Group :
    ITT Rayonier Inc.—chemical cellulose, wood pulp
    Pennsylvania Glass Sand Corp.—silica & clay products
    Southern Wood Piedmont Co.—fire & weather resistent lumber
  5. Defense—Space :
    Federal Electric Corporation.
    ITT Arctic Services, Inc. DEW line BMENS.
    White Alice communication System.
    "ITT's French Laboratory Co."—Ground surveillance radar.
    ITT Gilfillean, Inc.
    Itt subs. in Fr. & Ger."—TACAN.
    ITT Electron Tabe Dn.
    ITT Avionics ECM.
    ITT Defense Communications Division.
    ITT Space Communications—satellite comm. (stations in Greece, Columbia, Spain, Guam).
    "Our principal German company.

APPENDIX H—EXPORT OF JOBS BY MULTINATIONALS—SOME EXAMPLES

More than 1,000 steelworkers' jobs were exported from Meriden-Wallingford, Connecticut, area to Taiwan by Insilco (International Silver) by 1971. The stainless steel flatware formerly made in Connecticut now is imported by Insilco. This is just one example of the export of jobs of steelworkers by multinational firms which have sent thousands of jobs in ball bearings, roller chain and other steel products out of the U.S.

600 machinists' jobs in Elmira, New York, were exported from the United States when the Remington Rand typewriter plant, which once employed over 6,000, closed in 1972. High costs and imports were some of the many factors blamed by local managers for the shutdown. Some production was moved to Canada. But this year the local union reported that some of the machinery was sent to Brazil, where Sperry Rand, the multinational owner of Remington Rand, also has an interest. Typewriters made under license to Remington Rand specifications in Japan have been imported. The Elmira machinists joined an estimated 30,000 other typewriter employees in Missouri, Connecticut and other states whose jobs were exported in the five years before 1972.

180 ladies garment workers' jobs in San Francisco were exported by American Hospital Supply, a giant conglomerate, to Juarez, Mexico, in 1972 where the paper garments they made could be shipped to the U.S. market from an area just south of the U.S. border. Along that strip another 50,000 jobs in toys, electronics, apparel, replace the jobs of American workers from Indiana to Los Angeles, from Pennsylvania to Wisconsin, as the giants of American industry joined small employers to export assembly jobs from the nation's cities and towns to Mexico, where goods for the U.S. markets are produced.

2,000 machinists in the GE plant of Utica, New York, had their jobs exported to Singapore between 1966 and 1972, when GE made its last radio in the U.S.

2,000 auto workers' jobs were lost in Los Angeles when Chrysler shut down. From Japan Chrysler Mitsubishi began to send the compact Colt to the West Coast of the United States in 1971.

1,600 workers' jobs in Philadelphia Ford-Philco were affected in 1972 by the latest of a long history of jobs exports and relocations that has persisted in that city since 1963, when Ford-Philco began to make its world-wide shifts in electronics. Ford-Philco is one of the major exporters from Taiwan to the United States, now that Taiwan has become the largest supplier of black and white TV sets to this country. "The jump in imports from Taiwan is attributable partly to the Japanese, but the bulk comes from a continued transfer of output from U.S. to Taiwan by Admiral, Motorola, Philco Ford, RCA and Zenith." (Consumer Electronics, Television Digest, February 5, 1973.) Henry Ford reportedly told the Mayor of Philadelphia that he did not expect to build any U.S. plants in the foreseeable future. 700 glass workers lost their jobs in a Libby-Owens Ford sheet glass plant in Shreveport, Louisiana. Pittsburgh Plate imports sheet glass from abroad.

The service jobs of America's ships have been exported until the U.S. home fleet carries only about five percent of the foreign trade volume, and U.S. employment in shipping and shipyard work is low.

19,000 shoe workers in Massachusetts alone lost their jobs in the 1960s as American shoe manufacturers faced foreign competition and followed the policy of "If you can't lick them, join them." Large conglomerate multinationals like Interco and Genesco produce shoes in France, Canada, Belgium, England, Italy and South America. A Milwaukee shoe firm announced five years ago that it would make shoes in Ireland, exclusively for the U.S. market.

No action has been taken to protect these workers. The U.S. government has studied and restudied the problem for years on end, while each day, each week, each month tens of thousands more jobs are exported—despite the denials of the corporations involved.

To these men and women, there is no question about whether U.S. jobs have been exported. They know they have. They have lost their jobs.

And for the schoolteachers whose jobs are affected by lost bond issues, for taxpayers who have lost the tax base of their community, for firemen and policemen and other local and state government employees, the problem is growing. This is not a problem of a few Americans. This is a problem for America itself.

APPENDIX I—SOME EXAMPLES OF REGULATIONS OF FOREIGN INVESTMENT ABROAD

A SUMMARY OF RECENT REGULATIONS OF THE GOVERNMENT OF BRAZIL CONCERNING INCENTIVES TO ATTRACT EXPORT ORIENTED INDUSTRIES DECREE LAWS OF OCTOBER 31, 1972

I. Decree Law 1,244 and Decree Law 71,277—Imports of export oriented factories.

1. All of the production of the import factory must be explored, except in the following cases:

(*a*) when an annual quota of domestic sales is established at the time the application for importing the factory is approved;

(*b*) when an Act of the President of the Republic authorizes domestic sales because of local or foreign market special conditions.

2. The factory to be imported must be in operation in the country of origin and its production in Brazil must provide an effective increase in Brazil's exports.

3. The goods produced by the imported factories and sold in the domestic market are considered imports and are therefore subject to import duties and all other local taxes. The Customs Policy Council will establish the basis for the calculation of these duties and taxes.

4. Export oriented factories imported under Decree-Law 1,236 are exempt from import duties and Industrial Products taxes.

5. The Foreign Trade Department of Banco do Brasil (CACEX) will appraise the value of the imported factory, taking into consideraton the book value in the country of origin. The equipment of the imported factory must be in condition to operate at least for five years.

6. The imported factory will benefit from all Government of Brazil incentives for exports of manufactured products, except those granted by Decree-Law 1,189 of September 24, 1971.

II. Decree 71,278—Special export programs.

1. To receive the benefits specified in Decree-Law 1.219, the Special Export Program must result in higher export earnings to Brazil, increase industrial productivity, assure economies of scale which may lower prices in the domestic market and fit in with the export priority areas established by Brazilian economic policy.

2. The applicant must submit a list of imports which will benefit from the incentives granted by Decree-Law 1,219.

3. If the applicant wishes to obtain the import incentives prior to exports, under the Special Export Program, he will have to request advance incentives at the time the program is submitted for approval.

4. Initial investments in machinery and equipment under the Special Export Program may be imported duty free and are not included in the value limitation set forth in Article 3 of Decree Law 1,219.

[From the New York Times, Jan. 2, 1973]

SPAIN HAILS A DECISION BY FORD TO CONSTRUCT $290-MILLION PLANT

MADRID, Jan. 1—A firm offer by the Ford Motor Company to build a $290-million plant in Spain brightened Spain's new year weekend.

The Ministry of Industry confirmed here late Friday that Ford of Europe, Inc., formally presented a petition on Dec. 23 to manufacture automobiles in this country.

According to the Spanish Government, the Ford factory will be designed to produce 240,000 cars a year. Based on the total production figure for the entire Spanish automobile industry for the current year of 630,000 units, this would mean that Ford would have more than one-third of the total output of new cars, and would be a close runner-up to the Spanish giant, Sociedad Espanola de Automoviles de Turismo, S.A., which built 340,000 automobiles in 1972.

RULING REQUIRES EXPORTS

The decree of last Dec. 7, under the terms of which Ford submitted its petition, requires that foreign car manufacturers setting up operations in Spain must export at least two-thirds of their production. This ruling would oblige Ford to sell at least 180,000 of its Spanish-built cars outside Spain every year—80,000 more than the total number of all brands that were exported in 1972.

There was no official indication, either from Ford or from the Spanish Government, of the possible effects of such a massive export program on Ford's production elsewhere in Europe, notably Britain and Germany.

But apart from any effects abroad, the requirement is bound to make life tough for the smaller automobile manufacturing companies in Spain, such as British Leyland's subsidiary, Authi, which has been continually operating at a loss in the highly competitive domestic motor car market.

The statement released by the Ministry of Industry said that 7,640 persons would be directly employed by the plant once it reaches full produciton, and that during its first year it would provide jobs for 6,400 Spaniards. The factory will take five years to reach its full production capacity.

The ministry's statement confirmed earlier unofficial reports that the Ford factory would be built on Spain's eastern coast. According to the Spanish news agency, Europa Press, which is closely linked to several cabinet ministers, the site chosen by Ford is near Valencia.

The official confirmation of the Ford bid came after more than a month of speculation that began with the visit of Henry Ford 2d to Madrid in November, when he called on the Minister of Industry, Jose Maria Lopez de Letona.

The statement said Ford's annual exports from Spain would total about $216-million. That is more than one-fifth of the total of all Spanish industrial exports combined in 1971, the last year for which such a figure is available.

AUXILIARY BUSINESS SEEN

The statement also said that the Ford factory would bring about $117-million worth of business to auxiliary Spanish industries.

The news that the Ford factory would be located on the East Coast was a disappointment to the people of hundreds of towns and villages in other parts of the country—including the elegant old sherry-producing town of Sanlucar de Barrameda—which had bombarded the Government, Ford offices and the United States Embassy with letters and telegrams offering such advantages as free land for Ford to build the factory in their respective towns.

The December decree that opened the doors to Ford is expected to entice other big automobile manufacturers into Spain, where wages are low and most strikes are illegal. Last Dec. 20, the Minister of Industry said on his return from a trip to Paris that Peugeot had expressed interest in such a possibility.

[From the New York Times, Nov. 24, 1972]

U.S. Investors Accept Mexico's Policy

(By Richard Severo)

Mexico City, Nov. 23.—The Mexican Government is making it clear that it will want greater Government participation with foreigners who want to invest here. But after a month of major policy statements to that effect, key American business spokesmen say they still believe Mexico remains an attractive investment possibility.

Indeed, a review of the situation strongly suggests that Mexican businessmen are more concerned about new government policies than are foreigners. As for the Americans, some have questions about technical details, but they tend to be unsurprised—almost relieved—at recent government statemen clarifying Mexican policy.

As one of them put it: "If you look at a lot of countries only a few of them can cut the mustard and Mexico's one of them. Mexico is still one of the few ball games around."

DEVELOPMENTS CITED

Within the last month the Mexican economy has seen the following developments:

President Luis Echeverria Alvarez signed a decree on Oct. 23 that requires 60 per cent Mexican ownership of auto part manufacturers, sets limits on component production and sets restrictions on the number of Models that can be produced for each line.

On Nov. 3, President Echeverria sent a bill to Congress that would essentially limit the amount of foreign technology that can be purchased by companies in Mexico. Mr. Echeverria said that although foreign technology has been useful to Mexico, he felt the country had to develop as much of its own as possible "for economic independence."

The bill is certain to pass before the end of the year, and thereafter all contracts for foreign technology will have to be registered with the Government.

On Nov. 4, the Government announced it was ending foreign dominance of the tobacco industry with the creation of Tabamex, a company 52 per cent owned by the Government. The Government is permitting the remaining 48 per cent to be held equally by tobacco companies and farmers.

The Mexicans call this the "Mexicanization" of the tobacco industry and predict it will provide about $24-million more in yearly earnings for 30,000 tobacco farmers and their families. Payment for the takeover will largely be to American and British interests, and negotiations are under way now.

Earlier this year, the Government acquired a majority control of the telephone company and took over Azufrera Pan-americana, a subsidiary of the Pan American Sulphur Company, a United States concern. Government control of the telephone company was achieved by increasing the Government's already substantial holdings, and Pan American Sulphur was not unhappy with the deal it made to divest itself of its Mexican holding.

However, with the three latest developments, a drift toward greater Government control was underscored. There was speculation in the press both here and abroad that it would weaken investor confidence in Mexico. As of yet, this has not happened.

In recent interviews on these developments, American businessmen were at the very least cautiously optimistic while their Mexican counterparts tended to have forebodings about what the future held for them.

"You know we are not little boys," said one Mexican. "We know what we are doing, we know how to handle foreign investors. We don't need the government to tell us what to do."

Said another, "Whenever the Government takes over something, you can be sure that, sooner or later, it will lose money."

None of the Mexicans or Americans were willing to be quoted by name.

The Americans were surprisingly sanguine about what was happening, perhaps because they have been in Mexico for such a long time and feel they understand the country's development.

"I think the Mexicans are saying they've made mistakes in the past," said one American. "They haven't really had civic responsibility. Too many of them have been saying, 'I'm out for me and you go to hell.' That's what Echeverria is out to change, and I don't blame him at all."

Another American said:

"The private sector is going into an obvious decline. But I think the Mexicans honor their commitments and welcome foreign investments, provided you first reach an agreement with the Government and know clearly where you stand.

AUTO INDUSTRY HAPPY

"Comparatively speaking, I still consider Mexico a place where you can get a reasonable return with low risk. You can make more money in Brazil, but that's a military dictatorship and surely it is a higher risk situation."

The developments in the automobile industry captured headlines in the Mexican press but they came as no surprise to Americans. In fact, in some ways, the developments were welcomed.

A large number of the more than 200 auto-component companies here are already owned by Mexican interests and the new requirements of 60 per cent "Mexicanization" were reportedly not of concern to the American companies, since they had already met or come close to that requirement. Auto manufacturers had received a draft of the presidential decree last spring. United States producers reportedly had no objection to restrictions on a number of models, since this would tend to reduce their production costs.

Moreover, limitations on component production would not appear to be a threat to the Americans or, for that matter, the Germans. Ford, for example, produces tooling here that is exported to the United States. Volkswagen makes parts here that it exports to various places. Chrysler's new $5-million plant near Mexico City would also be unaffected, since the air-conditioning components it produces are totally for export and therefore in compliance with the new rules.

"Frankly, some of us want government participation," said one American. "We know that once we have a deal, it is easier to get money, easier to get import permits for capital goods, easier to get appointments, easier to get roads, electricity, sites in industrial parks—easier to do almost anything."

Fausto Zapata, Under Secretary of the Presidency and a close adviser to President Echeverria, discussing the situation in an interview, said:

"It is unfortunate that Mexican businessmen are accustomed to excessive profits and tax loopholes. We want to change that."

Mr. Zapata dismissed assertions by some Americans and many Mexicans that President Echeverria was leading the nation toward socialism.

"This is not the case," he said. "We are going to an economic structure characterized by our desire to be the owners of our destiny. We want Mexican entrepreneurs to do it. We don't want to be a nation of waiters."

Mr. Zapata said the Mexican economy retains "intolerable characteristics" of inequity. He said that 70 per cent of Mexico's gross national product is in the hands of 30 per cent of the population.

Mr. Zapata dismissed assertions frequently made by Mexican leftists that Americans have meddled in the affairs of Mexico.

"Nothing like Chile has happened here," he said. "Foreign investment has not hurt us but we realize now we could have a problem in the future. We want to control the pattern of investment. Americans are no different than any other investors. They want to make profits. No investor in this country is a boy scout helping us without wanting anything in return."

In any event, the furor caused by the new economic policies seems to have boiled down to a single word. Last April, the United States Department of Commerce's Economic Trends report said that "Mexico welcomes selected foreign investment." In the latest report the headline was changed to "Mexico accepts foreign investment selectively."

[From the Journal of Commerce, Feb. 6, 1973]

PROCEDURES SPELLED OUT—MEXICO TO REGULATE FOREIGN INVESTMENT

(By Bruce Cross)

MEXICO CITY—Mexico's new foreign investment laws contain several important changes. Businessmen who expand into Mexico—including those who already have done so—now must work through two new entities created by these laws: the National Foreign Investment Commission and the National Foreign Investment Registry.

The laws themselves are relatively brief, but regulations surely will be added to them as time goes by.

These changes are familiar and expected because they reflect Mexican thinking which has been prevalent for many years.

Ideas contained in these laws aren't really novel, but are written into the federal law books for the first time. They have grown out of Mexico's Constitution bit by bit, first from popular opinion to court decisions, then from interpretations to regulation, finally to written law.

These new laws, then, surprise no one who has taken time to think about what is happening in Mexico.

FOUR CHANGES

Four changes from Mexico's previous regulatory practice in the foreign investment field are outstanding:

1—The new laws state specifically that, with one exception, foreign investment may not represent more than 49 per cent of the capital stock in any Mexican enterprise. The one exception: if it is in the best interests of Mexico, a higher percentage of foreign ownership may be permitted.

2—Government authorization must be obtained to permit foreigners (or Mexican companies which are controlled by foreigners) to acquire more than 25 per cent of the capital stock, or more than 49 per cent of the fixed assets, of any Mexican business enterprise.

3—All shares of Mexican companies which are held by non-Mexicans (or by other Mexican companies which are controlled by foreigners) must be nominative shares, or converted to that form.

4—Control of all foreign investment in Mexico now is centralized in the National Foreign Investment Commission (Comision Nacional para la Inversion Extranjera), and that foreign investment must be registered in the National Foreign Investment Registry (Registro Nacional para la Inversion Extranjera).

Businessmen may well ask what foreign investment is in the eyes of Mexican law. The government considers investment to be foreign if it is made by foreign individuals, foreign legal "persons," and by foreign legal enterprises which do not have legal "person."

Investment also is considered foreign if it is made by Mexican companies whose capital is majority owned by foreigners, or by Mexican businesses in which foreigners have the right to control their management.

This covers a lot of ground, certainly all investment methods which non-Mexicans have used in the past.

An important point to note is the great emphasis placed on power to manage a Mexican business enterprise. If foreign investors take part in management of a Mexican company, or have the power to do so, regulation then applies also to cases involving indirect investment and use or transfer of foreign technology.

Regulation is spelled out in the three major areas of foreign investment: in the assets or capital of Mexican businesses, in real estate trusts operating along Mexico's borders or coasts, and "in other areas referred to in the law."

THREE OTHER RESTRICTIONS

Foreign investment in Mexico sometimes is planned around non-Mexicans who have obtained permanent immigration status (inmigrados).

In the eyes of these new laws, "inmigrados" may invest with the rights of Mexican nationals except when the immigrant is related to a "foreign economic decision-making entity."

Three other restrictions also apply to "inmigrados": they may not invest in activities which are reserved for Mexican nationals, they may not invest in companies which prohibit ownership of their shares by non-Mexicans, and they may not own land along Mexican borders or coasts.

RESERVED FOR MEXICANS

Seven industrial activities remain specifically reserved for Mexico's federal government: petroleum and hydrocarbons, basic petrochemicals, specified mining activities, railroads, communication by radio and telegraph, electricity, and anything involving radioactive minerals including generation of atomic energy.

Six other specific business areas are reserved for Mexican nationals and companies whose shares are reserved for Mexicans: transportation by air or sea, any kind of automotive transportation, forestry, radio and television, gas distribution, holding title to land within 62 miles of the borders or 31 miles of the coasts, plus business activities specified by the government's executive branch (including financing, banking, investment companies, insurance and bonding).

Interesting to note, the law does not prohibit minority ownership by foreigners of activities specified by the Executive Department provided those foreigners are not acting as a group.

PERCENTAGE LIMITS

Aside from other "no-no's," Mexico permits foreign investment in many other business activities—although it continues to place percentage limits on maximum ownership which foreigners may hold in them.

These include (1) mining operations (49 per cent maximum in most areas, 34 per cent in "national reserve" areas); (2) automobile parts manufacturing (40 per cent maximum); (3) secondary petrochemical operations (40 per cent maximum); and (4) a maximum of 49 per cent in a long list of areas specified either by laws or by Executive Department regulations: advertising, agriculture, aluminum, bottled water, cellulose, cement, cosmetics, essences for flavors and perfumes, fertilizers, fishing and fish canning, glass, motion picture production, distribution and exhibition, perfume manufacturing, publishing, rubber (heavy manufacturing), soap, soft drinks, and steel.

Foreign investment to a maximum 49 per cent is permitted in all other cases for which laws or regulations do not set particular limits, provided foreign investors do not take part in company administration or help determine company management policy.

Foreign ownership may be permitted at higher rates in these other cases if the National Foreign Investment Commission decides that doing so would benefit Mexico's economy.

Even in those exceptions, however, foreign investors may not take part in company management in a proportion greater than their share of its capital.

17 POINTS

How will Mexico's government decide what foreign investment to admit? What are its criteria for setting the maximum percentage ownership which foreigners may hold? Mexico's powers-that-be use a checklist containing these 17 points, plus its own "discretionary power."

1—Foreign investment must supplement, not displace, Mexican investment.

2—Foreign investment must not displace healthy Mexican enterprises.

3—Will the foreign investment help Mexico's balance of payments? Will it increase Mexico's exports?

4—Will it raise the level of employment? How will it affect wage and salary levels?

5—Will it train and use Mexicans in its administrative and technical groups?

6—What will be its use of nationally-produced raw materials and component parts?

7—Will the new foreign investment help bring underdeveloped areas of Mexico into the national economic life?

8—Will it have a monopoly position?

9—To what extent will the investment be financed by foreign capital? How diversified will be its sources of capital?

10—How will the new investment help regional and subregional integration in Latin America?

11—What is the structure of capital in the branch of this business which already exists in Mexico?

12—How will this investment affect the prices and quality of products in the market?

13—What importance will this new investment have in Mexico's national economy?

14—Will it help preserve Mexico's social and cultural values?

15—What new technology will this new investment contribute to Mexico? What research and development will it do?

16—How will the foreign investor identify with Mexico's interests? What is his relationship to foreign groups which make economic decisions?

17—To what extent will the foreign investment help Mexico reach its national objectives? How does it comply with Mexico's national development policies?

REGULATE OWNERSHIP

Mexico's new foreign investment laws also regulate the ownership of capital stock in Mexican companies. In three cases, shares of capital stock in Mexican companies must be nominative: companies controlled by foreign persons, Mexican companies which in turn are controlled by foreigners, and Mexican companies controlled by foreign economic groups which have no legal standing.

In addition, nominative shares must be issued in the proportion and way established by the National Foreign Investment Commission or by other laws and regulations.

Bearer shares of Mexican companies no longer can be purchased freely by non-Mexicans. In order to buy bearer shares, foreign purchasers first must obtain authorization from the National Foreign Investment Commission. Then bearer shares must be converted into nominative shares.

Furthermore, bearer shares of Mexican companies which are held by foreigners or by Mexican companies controlled by foreigners must be converted to nominative shares and registered with the National Foreign Investment Registry within six months (by July, 1972). Conversion is simple, and may be done by noting pertinent nominative information on the shares themselves or on attachments to them.

These new foreign investment laws have several big teeth to insure compliance. Companies in Mexico with foreign ownership will lose all their legal rights if they are not registered: their acts will have no legal effect whatsoever.

[From the Conference Board Record, August 1972]

APPENDIX J

TO DISC OR NOT TO DISC—SOME EARLY RETURNS

(By Michael G. Duerr. CB International Management Research)

Although many U.S. corporations have decided to form domestic international sales corporations, not many now expect that the DISC will revolutionize their strategies for conducting international business, according to a recent poll of international executives.

As part of a recent survey, The Conference Board asked its Senior International Executives' Panel: "Do you anticipate any change in your company's long-range strategy for competing in world markets as a result of devaluation . . . [or] other government actions (e.g., trade and investment restrictions, the DISC)?"

Only 31 of the 105 responding executives say that they anticipate any significant change for any reason, and only six attribute this change to the use of a DISC.

Just over one-third of the panel (37) report that their companies have formed a DISC or else are definitely planning to form one. Seven say that they have not decided, and nine say that they have decided not to form a DISC. Almost half the panel had nothing to say about the DISC at all.

Among the most enthusiastic proponents of the DISC is the president of a chemicals company. He writes: "We formed a DISC effective January 1 and have been using it either as a direct seller or as commission agent on that portion of our export sales that qualify. In the case of certain products in ample supply, we have calculated in the DISC benefits in setting our pricing so as to help achieve greater volume. We have achieved in the first three months of 1972, and expect to achieve for the year as a whole, a significant increase in our export sales vs. 1971. In part, this increase is a result of the DISC legislation. . . ."

The president of an industrial equipment firm notes that the use of a DISC has encouraged his company to speed up shipping time from U.S. plants to Europe, while cutting back on European inventory. And several other executives say that they expect to place more emphasis on exports in order to gain full advantage from a DISC.

Executives who have decided against using a DISC typically explain that their companies are already committed to overseas manufacturing. "We took a hard look at DISC and decided it would not be to our advantage because our international investments are more significant than our exports," writes one. A pharmaceuticals company executive reports that a study convinced him that DISC's effect would be "quite negligible." And a foods company president writes: "We were pleased to see the adoption of DISC, although we have not presently planned to form one."

The majority of companies which have decided to form DISC's indicate that they expect to derive some benefits, but that they do not expect to change their strategies for serving foreign markets as a result of their new export vehicle. The following comments are typical of the range of opinion among this group:

"Like most companies, we are taking advantage of the benefits of the DISC. However, we do not feel that they are of sufficient magnitude to have any real impact on the competitiveness of U.S. exports.

Assistant controller, machine tools.

* * * * * * *

The Government's DISC proposal has been under active consideration. and it is very possible that our company will establish a DISC in the near future. Our investigations, however, have indicated that the potential benefits from the DISC are not likely to have much of an impact on our operation.

Vice president & general manager, metal products.

* * * * * * *

We are in the process of forming a DISC corporation, but do not presently feel that it will have a major impact on the growth rate of our U.S. exports.

President, household products.

* * * * * * *

A few companies express doubt that the DISC will endure as an export promotion measure. The vice president, international, of one of them feels that their DISC "will definitely have a favorable effect on U.S. export sales volume, with favorable effects on plant capacity utilization and profits." But he adds: "Our policy will be to try to take advantage of this on a short-term basis. as we do not expect that DISC opportunities will continue unhampered by Congressional restrictive amendments or foreign government action."

Several other panelists suggests that present legislation does not go far enough in the direction of offering export incentives. Two suggest additional steps:

We expect to take full advantage of the DISC-type operation, but this advantage is obscured by the problem of arriving at a practical tax reserve policy. An export incentive in the form of a concrete reduction in the tax rate, similar to a Western Hemisphere Trade Corporation, would be preferable.

President, machinery and equipment.

* * * * * * *

Although we view the DISC legislation as a step in the right direction, further tax concessions and assistance by the government—rather than hindrance—will be required for this country to balance its external accounts and maintain an internationally competitive position.

Treasurer, pharmaceuticals.

* * * * * * *

And another panelist expresses a viewpoint implicit in the comments of many:

We probably will utilize DISC only for a small portion of our business inasmuch as we are so thoroughly established over the years in our distribution methods, our financing methods, and our tax situation all over the world. DISC does not offer us what it would to the company just contemplating entry into the foreign field.

Vice president, international, instruments.

* * * * * * *

The Conference Board's panel is composed of executives whose companies have been active in international business for some years. It is possible, therefore, as the final quotation suggests, that a survey of companies with less international experience would have drawn a more enthusiastic response.

[From the Wall Street Journal, Mar. 7, 1972]

NOW AMERICAN EXPORTERS CAN HELP THE GOVERNMENT BY NOT PAYING ALL THEIR INCOME TAXES

By setting up a DISC. A DISC or Domestic International Sales Corporation is a new type of U.S. company created by Congress that will make doing business overseas more profitable to American businessmen.

WHAT DISC DOES

A DISC serves as the export sales arm of a United States company and operates under greatly simplified intercompany pricing procedures. By offering significant tax benefits to U.S. companies who operate through a DISC, the Administration has put American goods and services in a more competitive posture in foreign markets.

WHAT DISC CAN DO FOR YOU

The new law provides an indefinite deferral on 50% of export earnings. In order to take advantage of this benefit, a company must file a DISC election with the IRS . . . in some cases before March 31, 1972. Your attorneys can give you the necessary legal guidance to comply with Internal Revenue Service directives in this area.

WHAT WE CAN DO FOR YOU

Chemical Bank can help by giving you the financial advice needed in setting up and operating a DISC. Our international officers have followed the development of DISC legislation for some time and are experts on the financial implications of this new law.

WHAT WE'VE ALREADY DONE FOR YOU

As a matter of fact they've even written a book on it: *DISC—A Summary of Pertinent Facts for the Financial Officer* which explains many of the details in setting up a Domestic International Sales Corporation. Chemical Bank also has in operation a computer model that can assist you in forecasting various tax impact alternatives between a DISC and the parent corporation. The computer service is available at a nominal cost. The booklet is free. Both are extremely valuable in evaluating DISC.

In addition, Chemical Bank has a wide range of international banking experience that our officers can use to help you properly invest the increased cash flow that a DISC will produce.

If you would like more information on DISC or on Chemical Bank, or would like a copy of our DISC brochure, contact your Chemical Bank representative or write to: DISC, Box 5161, Chemical Bank, 20 Pine Street, New York, N.Y. 10015. But do it today. March 31 is only 28 days and 16 hours away from this morning's coffee.

[From Economic Outlook, December 1972]

APPENDIX K—ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT

CONTROLS ON CAPITAL FLOWS—THE RECENT ESCALATION

The past eighteen months have seen vast movements of capital provoked, chiefly, by uncertainties regarding exchange rates. Most countries other than the United States have at times experienced large inflows of mobile funds. As protection against these pressures, there has been widespread resort to controls, new restrictions and other devices to mitigate the flows. The following paragraphs summarize the measures adopted in the last twelve months and seeks to relate these to previous aims and practices.

Although firm conclusions are premature, a number of measures designed to ward off excessive short-term inflows seem to have been fairly effective, except at times of violent speculation. Protection against speculative outflows seems more difficult.

An important question that cannot yet be answered is whether, and to what extent, widespread controls designed to prevent excessive short-term flows distort the pattern of genuine long-term capital movements.

THE GENERAL CONTEXT

The recent escalation of measures to restrain capital flows has been superimposed on a structure of controls which, in the case of a number of countries, was already fairly extensive. In general, the already-existing controls had been introduced and maintained for motives other than that of warding off surges of mobile funds, and it is necessary to distinguish clearly the different types of motivation.

Broadly speaking, controls and other measures affecting capital flows may be imposed for two main types of reason.

(i) First (as recently), resort may be had to controls or other measures to protect the domestic economy and/or the external balance against sudden *abnormal surges* of funds, consisting largely, but far from exclusively, of flows of banking funds or transactions in short-dated assets. Recently it has been, predominantly, the countries at the "receiving end" that have extended such controls, i.e. against inflows from other countries and primarily from the United States. But previously-existing controls included measures to restrain outflows.

(ii) Second, resort may be had, on what is intended to be an *enduring basis*, to measures designed to restrain international flows of capital into or out of a country, whether for direct balance of payments or other reasons. The most usual case would appear to be restrictions on outflows, but some countries have sought to stimulate inflows, particularly on direct investment, for example by tax privileges.

The object of this note is to consider only control measures falling under the first category, i.e. those imposed to ward off sudden large flows of funds. But the same measure may be imposed for a variety of motives, and the effects will be the same whatever the type of motivation. Hence the recent escalation of controls, imposed as a result of monetary instability, has to be considered against the background of the apparatus of controls which already existed and which had been imposed primarily for other reasons.

SUMMARY OF RECENT MEASURES AGAINST MOBILE FLOWS

During the last eighteen months there have been three major waves of defensive action by OECD countries against surges of mobile capital and their undesired domestic liquidity effects:

the first started after the temporary closing of some major European exchange markets on 5th May, 1971, and was marked by the floating of the Deutsche Mark and the Dutch Guilder, and the revaluation of the Swiss Franc and the Austrian Schilling;

the second was sparked off by the U.S. measures of 15th August 1971;

the third followed the Sterling crisis of end-June, 1972.

Before the third wave started, there had already been some gradual rebuilding of the barriers that had been dismantled immediately after, or in some cases even before, the Washington Agreement of 18th December, 1971.

In the May to mid-August 1971 *period*, action other than through exchange rates was largely concentrated on measures to influence the *banks' external position:* restriction of interest payment on foreign deposits (Germany), tightening, or the introduction, of reserve requirements on the banks' net or gross foreign liabilities (Belgium, France, Germany), and direct regulation of the banks' net external position (France). In the Netherlands and Italy, restrictions against inflows via the banks' external accounts were already in force at that time.

Two countries took measures to affect other—including long-term—forms of capital improvements:

Belgium-Luxemburg adapted the two-tier exchange system of 1955 to work as a brake on inflows rather than outflows only;

Japan stopped a major loophole in its otherwise rather tight system by prohibiting the sale to non-residents of unlisted domestic bonds (the bulk of the Japanese bond market). In addition, it took important measures to liberalise long-term capital exports.

In the mid-August to December 1971 *period*, most countries had—as an immediate reaction to the U.S. August programme—recourse to defensive measures through their exchange rates, suspending the upper intervention limit or both limits. Some countries supported this through action on the banks' external position of the kind described above (France, Italy, Spain, Switzerland, the United Kingdom, Japan). France, Italy and Japan found it necessary, in addition, to impose closer control on transfers into non-resident checking accounts denominated in their respective domestic currencies.

Capital movements were also affected by the following measures:[1]

France introduced a two-tier exchange system, with only commercial transactions being allowed access to the officially supported exchange market; this was supplemented by action to mitigate shifts in "leads and lags";

the *United Kingdom*, with its sophisticated money markets, found it necessary to supplement its actions on the banks' external position through introducing barriers against inflows into other sectors of the money market (deposits with local authorities, and building societies, Treasury bills and notes of the short- and medium-term range) and later also against inflows into long-term markets;

Japan tried to limit inflows under "leads and lags" through restrictions on advance settlements for exports;

the *Netherlands*, to put a brake on inflows into its bond market, introduced a closed-circuit system for non-resident transactions in domestic guilder bonds ("0"-guilder market);

Switzerland reinforced its traditional mechanisms for re-exporting inflowing funds by obligating foreign borrowers to convert into foreign currency the proceeds of issues of SF bonds or notes and of medium and long-term bank loans; and raised the maximum amount for individual SF issues by foreigners.

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[1] The present Note makes not attempt to summarise the whole range of short-lived measures taken for the two-week period preceding the Washington Agreement.

During the January to mid-June 1972 *period*, four countries again acted restrictively on inflows via their banks' accounts, partly re-introducing measures they had abolished shortly before or after the Washington Agreement (Belgium-Luxembourg, the Netherlands, Germany, Japan); and Japan re-introduced its control over advance export settlements, abolished in December, 1971. The most important, and rather new measure affecting *non-monetary capital operations* other than trade credits was the introduction by Germany of cash deposit requirements on companies' foreign liabilities (including intra-concern liabilities). The initial reserve ratio was fixed at 40 per cent which, *inter alia*, meant a considerable increase in the cost of borrowing abroad. Five countries took measures to encourage *exports* of non-monetary capital (France, the Netherlands. Switzerland and Japan). The United Kingdom liberalised inward and outward direct investment vis-a-vis EEC countries in anticipation of EEC entry.

Since the floating of Sterling on 23rd June, 1972, two countries have taken fairly drastic and far-reaching measures against inflows:

Switzerland introduced a full-scale ban on foreign acquisition of practically all kinds of capital assets (including real estate) and imposed a penalty rate of 8 per cent per annum on any increase in foreign-owned bank deposits. It also put restrictions on borrowing abroad by non-bank enterprises. The banks were asked to balance their foreign currency position on a daily basis (a measure withdrawn recently); and reserve requirements on banks' foreign liabilities were put on a mandatory basis.

Germany tightened both the cash deposit requirements on non-bank liabilities (raising the ratio from 40 to 50 per cent, the legal maximum, and extending the coverage) and reserve requirements on banks' foreign liabilities. More important, a ban was imposed on foreign purchases of domestic DM bonds as the coupon tax barrier (introduced in 1965) proved no longer effective; this was supplemented subsequently by an agreement that the banks would not reduce their holdings of foreign DM bonds below the end-June 1972 level.

TABLE 14.—CONTROLS AND OTHER MEASURES AGAINST CAPITAL INFLOWS ADOPTED IN 1971 AND 1972

Type of measure	Countries adopting
(i) Floating rate for capital transactions	Belgium,[1] France, Netherlands.[2]
(ii) Measures affecting banks' external positions:	
Restriction of interest payment on nonresident deposits	France, Germany, Netherlands, Switzerland, United Kingdom.
Penalty rate on nonresident deposits (increase)	Switzerland.
Direct regulation of banks' net external position (or foreign currency position).	Belgium, France, Italy, Netherlands, Switzerland, United Kingdom.
Reserve requirements on banks' foreign liabilities	Belgium, France, Germany, Spain, Switzerland.
Supervision of transfers into nonresident accounts with domestic banks denominated in domestic currency.	Australia, Austria, France, Ireland, Italy, Japan, United Kingdom.
(iii) Measures affecting short-term borrowing abroad by nonbanks:	
(a) Financial credits:	
Reserve requirements on foreign liabilities of nonbanks	Germany.
Control on borrowing abroad by nonbanks	Switzerland, United Kingdom.
Control on intraconcern borrowing abroad by nonbanks	Netherlands.
(b) Trade credits (including measures affecting "leads and lags"):	
Control on domestic foreign currency credits to domestic importers and exporters.	France.
Control over timing of export and import settlements	France, Japan.
Restrictions on trade credits in general	Netherlands.
(iv) Measures applying to long-term capital transactions:	
Restriction on acquisition (or net acquisition) by nonresidents of domestic bonds.	Austria, Germany, Japan, Netherlands United Kingdom.
Restriction on acquisition (or net acquisition) by nonresidents of domestic shares.	Japan, Switzerland.
Restriction on acquisition (or net acquisition) by nonresidents of real estate.	Austria, Switzerland.
Restriction on long-term borrowing abroad by residents	Switzerland.
Reserve requirements on foreign long-term liabilities of nonbanks	Germany.

[1] Introduced in 1955, but modified in 1971, to curb capital inflows.

[2] For nonresident transactions in domestic bonds. See also under (iv).

Other recent actions include the following:

The *Austrian* authorities have reached an agreement with the banks to limit the net inflow into the Austrian bond market.

The *Netherlands* has extended existing controls to trade credit transactions, and to intra-concern capital operations (which are frequently counted as direct investment transactions. Thus, participations in Dutch enterprises and the acquisition of Dutch shares are practically the only remaining outlets for foreign investment in the Netherlands, though not in guilder-denominated assets: for some time the authorities have satisfied substantial demands for guilder assets by allowing non-resident firms to use the Euro-guilder issue market (on the understanding that the paper would not be offered to Dutch residents). To a lesser extent, the same technique has been used by *France* and more recently by *Belgium-Luxembourg.*

Japan has continued its policy of tight controls over advance export settlements and over the banks' external position, including transfers to non-resident yen accounts, and has pursued an expansionary capital export policy. More recently, the authorities have prohibited the net acquisition of all types of domestic bonds and shares by non-residents.

Table 14 attempts to categorize the different measures adopted under the following heads:

(i) Floating rate for capital transactions; [3]

(ii) Measures affecting banking flows;

(iii) Measures affecting short-term borrowing abroad by non-banks, including action to restrain movements of leads and lags;

(iv) Measures applying to transactions in long-term assets.[3]

Although it would be premature to draw any firm conclusions from recent experience, some tentative comments can be made regarding each of these types of measures.

A floating rate for capital transaction probably leads to widespread evasion only when the spread between the "commercial" rate and the "financial" rate is excessive (for instance, 5 per cent for more than a brief period). In practice the spread on the French and Belgian markets has remained fairly narrow—and evasion therefore has presumably been on small scale only.

Banking flows are perhaps relatively easy to regulate. But imposition of controls on such inflows has frequently led to other routes for short-term borrowing being developed; hence the imposition of controls on borrowing abroad by non-banks, and, in some cases, on transactions in long-term assets. One might judge that the apparatus of controls, even when most complete and stringent, has been fairly imperfect as a barrier, but that it has nevertheless, acted as a barrier to some considerable extent. One question for consideration is whether countries have found that the effectiveness of such controls has weakened after the initial shock of their introduction.

SYNOPSIS OF ACTION ON CAPITAL FLOWS

[May to mid-August 1971]

Month, major events	Belgium-Luxembourg	France	Germany	Italy
May 5.—Exchange markets closed in Germany, Austria, Belgium, Netherlands, Switzerland.	May 11.—2-tier exchange system modified to curb capital inflows.	May 18.—Reserve requirements on foreign liabilities of banks tightened.	May 10.—DM floating; money market investments by foreigners restricted; interest payment on foreign deposits prohibited.	
June	June 13.—100 percent serve requirements on increase in net foreign liabilities of banks.		June 1.—Reserve requirements on banks' foreign liabilities tightened sharply.	
July to mid-August		Aug. 5.—Ceiling on banks' net external liabilities; reserve requirements tightened.		

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[2] There has, of course, been temporary recourse to floating rates for *all* transactions.

[3] Practically all such measures affect capital movements falling within the scope of the liberalisation commitment to which Member countries have subscribed under the OECD Code of Liberalisation of Capital Movements and have thus been examined by the Organisation's Invisibles Committee and approved by the OECD Council.

The worst gap may lie in the difficulty of controlling the timing of payments for current-account transactions—a gap to which a dual-market mechanism is also subject. It may be true to say that both the dual-market mechanism and the controls are likely to become relatively ineffective when a country's currency comes under heavy speculative pressure in the markets.

Restrictions on "short-term" transactions would generally be regarded as less harmful than restrictions on portfolio investment and, still more, on direct investment. But controls over "short-term" transactions are likely, under extreme pressures, to prove inadequate, and to require to be extended, to some extent at least, to cover "long-term" transactions. And, in any case, the distinction between short-term and long-term transactions is becoming less meaningful—e.g. direct investment is often financed at short-term through the Euro-markets. A determining factor here would seem to be whether extreme pressures requiring severe controls would last long enough for the inevitable distortions on genuine long-term capital movements to matter.

More generally, it would seem that controls which involve licensing of individual cases by the authorities may tend to be more arbitrary than measures which do not necessitate this. Many of the recent measures (including of course the dual-market system) appear not to involve individual licensing by the authorities—though in some cases they may involve unofficial rationing by banks, and official vetting of direct investment projects and of foreign borrowing by domestic companies.

Though the recent growth of controls over capital movements has been motivated by a desire to head off inflows, the structure of controls already existing before the escalation was, in some cases, built up partly as a protection against speculative outflows. This was of course chiefly true of countries which had, in the past, been most exposed to these dangers; the United Kingdom being a leading example. Some elements in the French system of controls were also originally put in place to guard against speculative outflows and could be used again for that purpose. The dual exchange rate system was operated by Belgium in the summer of 1969 when it was rumoured that the Belgian franc would follow the devaluation of the French franc and when speculation on a German revaluation was strong.

Recent British experience indicates the relative ineffectiveness of such protective devices for restraining outflows. There may be two special reasons for this. First, recent speculation has, for the most part, consisted rather of speculation against the dollar than of speculation in favour of any other currency in particular, so that the pressure for inward flows has tended to be diffused rather than concentrated on one particular currency. Speculation against sterling, on the other hand, was clearly concentrated on that one currency. Second, countries are in a sense more vulnerable in face of capital outflows than of inflows, because their reserves are finite, and generally small in relation to potential outflows. The standard of effectiveness required is therefore much higher. It may be added that the United Kingdom outflow was also difficult to control insofar as some overseas Sterling countries represented loopholes in the system and insofar as there was a sizeable stock of Sterling liabilities to non-residents. Use of the dual-exchange rate by Belgium was not fully successful in restraining capital outflows, because these continued for a time in the shape of changes in the terms of payment on current transactions.

SYNOPSIS OF ACTION ON CAPITAL FLOWS

[May to mid-August 1971]

Netherlands	Switzerland	United Kingdom	Japan	Australia
May 10.—Guilder floating.	May 9.—SF revalued by 7.07 percent.	----------------------	May 17.—Foreign purchases of domestic bonds restrictively controlled.	
		July 8.—Removal of official exchange cover of medium-term borrowing abroad by public corporations and local governments.	July 1 [E].—Important liberalisation of capital exports (direct investment, portfolio capital, real estate).	

Note: [E] = Promotion of capital exports.

TABLE I.—PLANT AND EQUIPMENT OUTLAYS BY U.S. CORPORATION FOREIGN AFFILIATES 1960-73

[Billions of dollars]

Year	Total	Mining and smelting	Petroleum	Manufacturing	Other
1960	$3.8	$0.4	$1.5	$1.4	$0.5
1961	4.1	.3	1.5	1.8	.5
1962	4.6	.4	1.6	2.0	.5
1963	5.1	.4	1.9	2.3	.5
1964	6.2	.5	2.1	3.0	.6
1965	7.4	.6	2.3	3.9	.7
1966	8.6	.8	2.5	4.6	.7
1967	9.3	.9	3.0	4.5	.8
1968	9.4	1.0	3.3	4.2	.8
1969	10.8	1.1	3.6	5.0	1.0
1970	13.0	1.4	3.8	6.5	1.4
1971	14.8	1.7	4.7	6.8	1.5
1972[1]	15.4	1.7	5.2	6.9	1.6
1973[1]	16.3	1.7	5.9	6.9	1.8

[1] Commerce Department Estimates.

Source: Survey of Current Business, September 1966, May 1967, September 1969, and September 1972, U.S. Department of Commerce and releases from Office of Business Economics.

TABLE II.—SELECTED LEADING NONAGRICULTURAL COMMODITIES IN U.S. FOREIGN TRADE, 1965 AND 1971, AND PERCENTAGE CHANGE

[Millions of dollars]

Commodity	Imports			Exports		
	1965	1971	Percent change	1965	1971	Percent change
Ores and metal scrap	$971	$1,044	7.5	$435	$486	11.7
Coal				477	902	89.1
Petroleum and products	2,092	3,323	58.8	418	479	14.6
Chemicals	768	1,612	109.9	2,403	3,837	59.7
Nonelectrical machinery[1]	1,160	3,503	202.0	5,275	8,779	66.4
Electrical machinery and products[2]	640	2,557	299.5	1,660	3,068	84.8
Autos, trucks, buses and parts	939	8,015	753.6	1,928	4,406	128.5
Motorcycles	134	497	270.9			
Aircraft and parts	140	298	112.9	1,130	3,389	199.9
Rubber products	[3] 47	[3] 263	459.6	166	205	23.5
Paper products	870	1,157	33.0	389	686	76.3
Glass and glassware	93	197	111.8	128	185	44.5
Steel	1,140	2,615	129.4	607	760	25.2
Nonferrous base metals	1,198	1,432	19.5	539	597	10.8
Leather	66	85	28.8			
Wood manufactures other than Furniture	270	491	81.9			
Textiles	800	1,392	74.0	528	632	19.7
Clothing	541	1,521	181.1	112	178	58.9
Footware	160	758	373.8			
Furniture	60	261	335.0	41	55	34.1
Travel goods, handbags and small leather goods	50	119	138.0			
Scientific instruments	43	78	81.4	288	469	62.8
Photographic equipment and supplies	100	245	145.0	233	508	118.0

[1] Includes engines, tractors, computers, factory and office machinery.

[2] Includes power machinery, generators, control instruments, radios and TV.

[3] Source: U.S. Department of Commerce, Bureau of the Census, U.S. Imports of Merchandise of Consumption, FT-125, p. 6; General Imports, FT-150-71, p. 9. U.S. Department of Commerce, Bureau of the Census, Overseas Business Report, April 1972, p. 4-13.

TABLE III.—CHANGE IN EMPLOYMENT (ALL EMPLOYEES) IN MANUFACTURING INDUSTRIES WITH HIGH DIRECT INVESTMENTS[1]

	1966–72 change in number of employees	1966–72 percent change
Nonelectric machinery	−45,800	−2.4
Electrical equipment	−75,700	−4.0
Transport equipment	−170,900	−8.9
Chemical and allied products	+40,800	+4.2

[1] Commerce department survey of current business and studies emphasize direct investment between 1966 and 1970. Employment changes are for 2 digit SIC Classifications, Bureau of Labor Statistics.

TABLE IV.—EMPLOYMENT CHANGES IN SELECTED ELECTRONIC, ELECTRICAL AND OTHER "TECHNOLOGICALLY ADVANCED" INDUSTRIES, SEPTEMBER 1969 to SEPTEMBER 1972

Industry sectors	September 1969, number	September 1972, number	Change (September 1969 to September 1972)	
			Number	Percen
Electronic components and accessories:				
Production employees	281,900	237,200	−44,700	−15.9
Nonproduction employees	121,300	108,700	−12,600	−10.4
Communication equipment:				
Production employees	262,400	218,800	−43,600	−16.6
Nonproduction employees	269,000	214,100	−54,900	−20.4
Metalworking machinery:				
Production employees	254,100	211,900	−43,200	−16.6
Nonproduction employees	86,800	78,300	−8,500	−9.8
Aircraft engines and engine parts:				
Production employees	114,700	74,100	−40,600	−35.5
Nonproduction employees	90,200	64,600	−25,600	−28.4
Office and computing machines:				
Production employees	143,800	112,000	−31,800	−22.1
Nonproduction employees	134,000	135,100	+1,100	+.8
Special industry machinery:				
Production employees	137,200	116,700	−20,500	−14.9
Nonproduction employees	70,300	61,500	−8,800	−12.5
Miscellaneous machinery (not elsewhere specified):				
Production employees	178,300	164,300	−14,000	−7.9
Nonproduction employees	50,300	46,300	−4,000	−8.0
Radio and TV receiving equipment:				
Production employees	121,000	107,200	−13,900	−11.5
Nonproduction employees	40,300	36,500	−3,800	−9.4
Electrical industrial apparatus:				
Production employees	161,900	149,300	−12,600	−7.8
Nonproduction employees	69,000	64,300	−4,700	−6.8
General industrial machinery:				
Production employees	193,300	180,800	−12,500	−6.5
Nonproduction employees	98,800	87,200	−11,600	11.7
Electric test and distribution equipment:				
Production employees	145,000	134,600	10,400	−7.2
Nonproduction employees	68,100	61,100	−7,000	−10.3
Mechanical measuring and control devices:				
Production employees	72,600	65,900	−6,700	−9.2
Nonproduction employees	42,500	38,600	−3,900	−9.2
Engineering and scientific instruments:				
Production employees	38,200	32,600	−5,600	−14.7
Nonproduction employees	39,500	32,500	−7,000	−17.7
Engines and turbines:				
Production employees	78,000	73,000	−5,100	−6.5
Nonproduction employees	36,900	38,500	+1,600	+4.3
Electric lighting and wiring equipment:				
Production employees	162,000	158,600	−3,400	−2.1
Nonproduction employees	47,400	46,000	−1,400	−3.0
Watches, clocks, and watchcases:				
Production employees	29,100	25,800	−3,300	−11.3
Nonproduction employees	6,300	5,600	−700	−11.1
Optical and opthalmic goods:				
Production employees	38,300	40,100	+1,800	+4.7
Nonproduction employees	15,700	15,900	+200	+1.3
Miscellaneous electrical products:				
Production employees	96,100	99,300	+3,200	+3.3
Nonproduction employees	28,500	27,300	−1,200	−4.2
Household appliances:				
Production employees	154,900	162,000	+7,100	+4.6
Nonproduction employees	39,300	40,100	+800	+2.0

[1] Ranked in order of total number of production jobs lost.

Source: Employment and Earnings United States 1909–71, bull. No. 1312 and Employment and Earnings, vol. 19, No. 6. December 1972, Bureau of Labor Statistics, U.S. Department of Labor.

Senator RIBICOFF. Our next witness is Mr. Perry Wilson, chairman of the board of Union Carbide Corp.

STATEMENT OF F. PERRY WILSON, CHAIRMAN OF THE BOARD OF UNION CARBIDE CORP.

Thank you very much for being with us here today, Mr. Wilson. I do appreciate your suggestion that your entire statement go into the record as if read and you may summarize the highlights.

Mr. **Wilson**. Thank you, Mr. Chairman.

Senator **Ribicoff**. You may proceed, sir.

Mr. **Wilson**. Mr. Chairman, members of the committee, my name is F. Perry Wilson. I am chairman of the board of the Union Carbide Corp. As you have just mentioned we have a formal statement which I would appreciate having included in the record and if it is agreeable with the chairman, I would like to summarize the highlights of my oral testimony.

I might add, Mr. Chairman, Union Carbide submitted a 93-page report to the committee in October of 1972 on this same subject. This report has been included in the proceedings of this committee, and since we consider it to be an integral part of our comments to the committee, I will be referring to this detailed report in my statement today.

Union Carbide is a major manufacturer of chemicals, plastics, industrial gases, carbon products, metals, and consumer products. We have production facilities in 44 States, and our multinational with manufacturing investments in 30 foreign countries. Total sales exceeded $3.3 billion last year, about two-thirds in the domestic market and one-third in foreign markets. Our exports from the United States in 1972 exceeded $250 million.

Some of my experience with Union Carbide has been in the international area; I, therefore, am particularly pleased to have the opportunity to appear before the committee to discuss Union Carbide's international business. We hope that this interchange will contribute to a better understanding of multinational corporations and their operations.

In view of the testimony of other witnesses there is no need for me to again go into the detail of the problems which the United States faces in international trade. The existence of almost a $7 billion trade deficit is, by itself, dramatic evidence that our Nation has entered into a new era in international economic relations.

Recently, much of the attention given to the adverse change in U.S. trade patterns has focused on the multinational corporation as a major factor and influence with respect to world production and trade. In this connection we believe it will be helpful to provide the members of the subcommittee with a picture of how at least one multinational corporation operates, of the benefits which it brings from its overseas activities to the U.S. economy, and to offer some suggestions for U.S. international trade policy in the years ahead. Our experience as a multinational corporation in the chemical industry is admittedly not characteristic of every firm in every industry, but we are pretty sure it is shared by most of the chemical industry and by many other major American international companies.

Let me state directly at the outset that Union Carbide would prefer to serve foreign markets with exports from the United States whenever and wherever that is possible rather than build plants overseas. The reasons for this, I think are pretty obvious. In addition to all the commercial risks involved in any major investment decision, a foreign investment in manufacturing brings a broad range of new and unfamiliar problems and risks: problems in currency fluctuation and convertibility; exchange controls; Government regulatory policies; the potential for expropriation or nationalization; a lack of trained personnel together with new concepts of employee and labor relations; different legal, tax, and accounting systems and practices; to say nothing of the language barrier and communication difficulties which we have.

The question might then be asked, why, then, do we make investments abroad? The reason can be outlined by briefly tracing how our business in foreign countries begins and expands. Foreign demand for most of our products normally manifests itself in the beginning by unsolicited orders for exports from this country. As such demand grows the first step has usually been to appoint independent sales agents in the countries involved. With further expansion of demand, we then send our own marketing representatives to better promote exports from our U.S. production facilities.

The crucial decision point comes when the market in that foreign country—or area—becomes large enough, often through our own marketing efforts, to support local production. If local competitive facilities should be installed, it would become increasingly difficult and eventually uneconomic to continue selling abroad because of transportation costs, import duties and other costs not borne by the local competitor, and often because of restrictions or barriers imposed by some foreign governments.

Senator Ribicoff. I notice in your testimony you say "many" and now you say "some."

Mr. Wilson. I meant to say many. There are many.

Senator Ribicoff. I think that this is one of the significant problems that faces this country, whether it is few or many. That is a point my colleague, Senator Fannin, keeps mentioning time and time again.

Mr. Wilson. Right.

At this point, we, as any American exporter, would have two basic alternatives: to give up and withdraw from the foreign market in which he has invested a good deal of time and money, or to install a manufacturing operation within the market. And there is one thing which our experience made very clear to us: If we do not respond at this point to the local market conditions by building a plant, some other international competitor certainly will—hence, in any case, we would lose the export position anyway whether or not we make the foreign manufacturing investment.

Nothing in our experience would lead us to believe that if an American-owned foreign production facility installed under these conditions were to be "wiped out," or "closed down" for any reason its local sales volume would automatically be replaced by an equivalent volume of exports from the United States.

As public interest in the multinational corporation increased, we decided to undertake a thorough and detailed study of Union Carbide's international investments with the aim of determining their impact on our domestic business, our exports, our employment, and on the U.S. balance of trade and balance of payments. The results of this study were published in October of 1972 in a 93-page report, and as I mentioned before, copies of this report have been given to the committee.

Senator Ribicoff. By the way, your report is part of our committee print of a compendium of submission on the "multinational corporations". It has been included in our report, sir.

Mr. Wilson. Thank you.

Senator RIBICOFF. If you would like a copy of it, I am sure the staff will be more than happy to give you a copy.

Mr. WILSON. Very good, sir. Thank you.

This detailed study clearly demonstrates that:

1. Union Carbide's exports from the United States have increased, not decreased, as our investment in foreign facilities has increased. In fact, as indicated by our first chart—No. 1—which I have here, and it is right over here and I hope you can see it, Mr. Chairman.

Senator RIBICOFF. I follow you.

Mr. WILSON. There has been a direct positive correlation between the trends of affiliated overseas production and our export volume from the United States.

Our exports from the United States in 1970 at $253 million were seven times greater than they were in 1951, compared to a fivefold increase in production of affiliated foreign companies. In 1951, Union Carbide exported only 5 percent of its domestic production. By 1970 this had increased to 11 percent.

2. Rather than export jobs, we have found that our foreign investments result in the creation of domestic jobs and an increase in product exports from our U.S. plants because of what we call the "pull" effect. The establishment of a new plant within a foreign market obviously reduces U.S. exports of the products manufactured by the new plant, but in time, our study shows, this loss of exports is far more than made up and offset by increases in exports of intermediate, allied, and more technologically sophisticated products manufactured in this country. The presence on the scene in the foreign market of an expanded local organization, required because of the local manufacturing facility, provides a broad, more effective and more aggressive overall marketing effort that can be achieved just with an export market organization or a sales agent.

As explained and calculated in detail in our study, this "pull" effect is tangible and measurable. Without it, export volume of $253 million in 1970 would have been $90 million of exports "pulled" by our foreign investments means 1,950 additional jobs in our domestic plants. There is no doubt that Union Carbide's foreign investment has created domestic jobs—it has not exported them.

As specific examples of the presence or absence of "pull" effect we have two additional charts that I would like to show you.

The next chart, chart No. 2, presents the export history of a major Union Carbide product group to Australia from 1951 through 1970, and this product group, Mr. Chairman, was chemicals and plastics. As you can see, from 1951 to 1956—when export sales of these products to Australia were handled by a local independent agent—the sales remained fairly stable. At a level of somewhat under half a million dollars a year. In 1957, we brought on stream on Australian manufacturing facility for these products, and the initial result was a slight drop in our exports to Australia. However, the effect of a strong local organizational presence, and the marketing "pull" of a local production facility began to show up dramatically in 1960. Our export of this product group to Australia today is five times as large as it would have been had we not invested in a plant there.

Now, the next chart we have is just exactly the opposite of this and it demonstrates what can happen when the decision is made not to protect an export developed market by building a local manufacturing facility, and that particular product group is largely acrylonitrile. For a variety of reasons, Union Carbide decided not to build a plant for the production of this particular product group in Europe. A foreign competitor did build such a plant in 1966 and our export sales plummeted from a high of $9.5 million in 1965 to zero in 1969.

These charts do not represent unique situations, or special circumstances. All over the world, Union Carbide exports to foreign markets where we have affiliated manufacturing facilities tend to be at a higher level and to show equivalent or greater rates of growth than exports to areas where Union Carbide has no manufacturing investment.

These multinational aspects of Union Carbide's operations also produce other benefits for the U.S. economy. As shown by the next chart—No. 4—our net positive contribution to the U.S. balance of payments was $236 million in 1970 and totaled almost $1.2 billion during the 8-year period shown on the chart. This is the red area, the sum total of it.

Within the net total figures, the dividends and other income received from foreign affiliated corporations exceeded dollar investment sent from the United States by $20 million in 1970 and by $246 million over the last 20 years. The overseas affiliates of all U.S. multinational corporations will again make the largest single positive contribution to the U.S. balance of payments—an estimated $5 billion net in 1972. Without it, the 1972 balance-of-payments deficit might have been $19 billion instead of $14 billion.

From this record of benefits to the U.S. economy from foreign investment, it would seem evident that attempting to solve U.S. international trade problems by taking it "out of the hides" of multinational corporations would almost surely be self-defeating and possibly counterproductive.

Among the proposals before Congress at this time are some which would either repeal the foreign tax credit or require payment of U.S. income tax on earnings retained abroad by controlled foreign corporations, or both. The combined impact of these proposals would boost the overall tax burden on Union Carbide's share of the earnings of its overseas affiliates to as much as 79 percent of pretax income. Certainly, this would represent a confiscatory tax rate. It would put most of our foreign manufacturing affiliates in a noncompetitive position, which would certainly tend to force the liquidation of our foreign operations.

The problem facing Union Carbide and our foreign affiliates in remaining competitive internationally even with no adverse change in tax treatment is apparent from the next chart—No. 5—which lists the world's 10 largest chemical companies.

All of these companies are strongly competitive and have foreign operations that make them multinational corporations. They are our competitors. They are well entrenched in their own markets and are becoming increasingly competitive in third country markets. Only 3 of the 10, as you will notice, are U.S. companies. Some of the countries involved, where these companies are located—exempt from home country taxes all foreign source income realized by their nationals. The others follow the U.S. practice of allowing a credit for foreign income taxes paid on income remitted from abroad to the extent of the home country tax on such foreign income. Today there is no country which taxes the undistributed earnings of a foreign operating subsidiary.

Higher taxes on the foreign source income of the three American multinational chemical companies listed in this chart would only tend to benefit the seven foreign chemical competitors.

It is implied that U.S. corporations go overseas to escape or evade taxes. Our experience—this is our company—would indicate this is not true. During the 5-year period from 1966 to 1970, Union Carbide's share of tax payments made by its foreign affiliates to foreign governments averaged 52.5 percent of our share of their total pretax income. Obviously, we are not investing overseas to evade tax payments.

Now, Mr. Chairman, I would like to make some brief observations concerning the future with respect to international trade.

Competitively we forsee a great deal of what we have experienced in the past; namely, continuous change. The chemical industry within the United States has been operating under extreme competitive pressures. For example, my company's overall domestic selling price index stands at 79 percent in 1972, of the 1957–59 base period, and our profits in absolute terms are still below those realized in 1966. In spite of the fact that we have spent since 1966 $1.6 billion in the U.S. economy to expand and modernize our facilities. In addition to the continuation of strong domestic competition, we certainly anticipate increased competition from abroad.

While exports have been increasing at about 7 percent a year, chemical imports into the United States have been increasing at the rapid rate of 15 percent over the last 5 years. The American share of the world's chemical exports has declined from 29 percent 10 years ago to approximately 20 percent in 1972.

Senator Ribicoff. The one figure I notice absent, unless it is in your larger statement, is what you import into the United States from Union Carbide plants abroad.

Mr. Wilson. I am not too sure it is spelled out in just those terms in our statement but, Senator, we import less than 1 percent from our foreign affiliates back into the United States.

Senator Ribicoff. That would amount to what in dollars?

Mr. Wilson. Well, that would amount to about $6 million.

Senator Ribicoff. $6 million.

Mr. Wilson. I am sorry. That is a high figure. It would amount to about $5 million.

Senator Ribicoff. $5 million. And you export about $260 million?

Mr. Wilson. Over $260 million in 1972.

If U.S. wage increases continue to exceed gains in productivity, then there is no end in sight to inflation and to our loss in competitive capability in international markets. Of course, this is turn means less exports and fewer domestic jobs. We need a new policy and hope the Congress will act this year on new trade legislation, which in our opinion, should include such factors as:

1. First, what has come to be called a safeguard mechanism. Such a mechanism should provide for a period of temporary, additional protection for those import-sensitive industries which are threatened with a sudden, disruptive influx of imports. It should be flexible enough to deal with a wide variety of problems and yet capable of providing prompt enough action to be meaningful.

2. Existing adjustment assistance legislation should be modified so that the criteria for eligibility are less stringent and are more responsive to the need. The programs under adjustment assistance should be

extended and improved upon, in our opinion, particularly in the retraining and relocation area. The emphasis should be on getting those that have been dislocated back to work as fast as possible.

3. We believe it would be useful if the major trading nations of the world would develop together common principles for both a safeguard mechanism and an adjustment assistance program. Accordingly, we feel the Congress should provide the authority to negotiate such an international agreement.

4. The Congress should also provide the authority for multilateral negotiations aimed at eliminating nontariff barriers.

We believe that, on balance, the elimination of nontariff barriers will do much to relieve many of the tensions presently found in international trading practices and hence, help to increase exports of some. However, for all practical purposes, in the case of our own company, in the case of Union Carbide, we would not expect a major boost to our exports from such negotiations.

5. The U.S. Government should organize and staff itself to deal with the new realities of international trade. The economic policy apparatus of the executive branch should be centralized so that business, and the public, will know where to go for guidance, assistance, and the answers. The structure should also provide for close consultation with Congress and with industry and labor in future trade negotiations.

On the international scene we see the following major needs:

1. The General Agreement on Tariffs and Trade (GATT) was concluded more than 25 years ago. We believe it is appropriate, at a minimum to call for a reexamination of the basic structure and principles of the GATT to see if it fully corresponds to our needs and those of the world in the 1970's. Since the advent of the European Economic Community the current voting structure of the GATT is potentially contrary to the long-term interests of the United States.

One proposal of interest is the steering committee approach proposed by the Rey report to the Office of Economic Cooperation and Development (OECD).

2. Another factor is to avoid "pollution havens." An international controls should be developed as soon as possible.

The domestic policies of the Government are equally as important to us in maintaining the international competitive posture of the United States. In this regard we welcome features which stimulate and encourage the productivity of the United States. The investment tax credit and the ADR system of depreciation are, to us, vital elements in a program to make American production more competitive. The DISC provisions for the stimulation of exports are already beginning to have a favorable effect on Union Carbide's exports from the United States. We believe that the DISC concept should not only be continued but possibly should be expanded.

Obviously, the attitudes, policies, and programs of the U.S. Government will have a pronounced effect on the ability of American manufacturers—whether they are multinational or not—to remain competitive and to maintain a reasonable share of the world's markets.

We hope your review and the legislative considerations of the Congress will not be undertaken in a spirit of retreat or despair, and I am sure that they will not. They should be taken with the aim of creating and executing an integrated, innovative policy designed to make U.S.

industry fully competitive with those of the other nations of the industrialized world.

If we were to build a wall around America, we would in essence be saying there is nothing new in the future, that the Nation is pleased with the status quo. Yet, the future holds so many unknown possibilities—the proof of this is the accomplishments realized in the past. The birth of completely new industries and new job opportunities since the turn of the century in America is more than ample testimony to this fact. We have no reason to believe the decades ahead of us will be any different. We in industry seek your help, understanding, and cooperation in creating an atmosphere in which such opportunities can flourish.

Now, before I conclude, Mr. Chairman, I would like to respond to certain statements made in previous testimony.

Perhaps as a result of the recent report of the Tariff Commission, multinational companies are being characterized as speculators and in some quarters blamed for staggering currencies and creating financial crises.

Now, we cannot imagine how this can be the case if the situation of Union Carbide is any criterion, and I do not know that it is, but our affiliated companies have in the total the equivalent of only $61 million in cash.

Now, of this, about $46 million is spread among a large number of companies in many different countries around the world. This $46 million is the minimum necessary for maintaining our day-to-day operations and hence, is frozen in for all practical purposes and is not available for transfer.

Now, the remaining $15 million is in Eurodollars held for possible future requirements, and these have never been switched, to my knowledge, into other currencies. Obviously, Union Carbide has in no significant way contributed to any run on the U.S. dollar.

Mr. Chairman, I think you very much.

Senator RIBICOFF. Thank you very much, Mr. Wilson, for your very measured and constructive approach. I particularly appreciate your coming here with some suggested programs that we are going to have to adopt. This is constructive testimony and the committee is most appreciative. This is exactly what we are looking for.

Mr. WILSON. Thank you.

Senator RIBICOFF. Now, in your statement you suggest that once the market in the foreign country becomes large enough, it becomes increasingly difficult to export to that market because of transportation costs and import barriers imposed by foreign governments. I would like to ask you a few questions on that particular statement.

Are you not saying that foreign trade barriers make it uneconomical to export to the foreign area and, therefore, you must invest in that market?

Mr. WILSON. That is part of the problem, Mr. Chairman; yes.

Senator RIBICOFF. Now, is that not a tacit recognition that our trade negotiations have failed to provide meaningful access to foreign markets in the past? To put it another way, our trade negotiations have failed to provide American business with reasonable access to foreign markets?

Mr. **Wilson**. Yes. I think, Mr. Chairman, that in the past our trade negotiations have been such that we may have given up too much too fast, and it was—I guess it can be looked upon as a noble gesture on the part of the United States but most of our competitiors in foreign countries now have grown up and they are pretty formidable competitors themselves and they need no further concessions.

Senator **Ribicoff**. Well, I can just see that by your list on the chart DuPont is first and then second, third, fourth, and fifth are European, and then you come sixth, and then the next three are European, and Monsanto comes last. So certainly, outside of DuPont, the other American companies are trailing.

Now, could you indicate to us what major barriers you find in Western Europe and in Japan that prevent the easy movement to these countries of American-produced chemicals or products you manufacture?

Mr. **Wilson**. Well, Senator, as I mentioned, we have not found any very major barriers in our patricular case. Are you talking about the nontariff barriers now?

Senator **Ribicoff**. Yes.

Mr. **Wilson**. We have not found any that are very major insofar as our products are concerned. We know, however, that there are barriers that might affect our customers here whom we may sell our products to who are exporting to Europe.

Senator **Ribicoff**. So, then, the nontariff barriers were not a factor with you?

Mr. **Wilson**. Not a factor. Not a major factor with us and we have looked at these very closely.

Senator **Ribicoff**. Now, du Pont, Union Carbide, and Monsanto, I assume, they all have plants abroad.

Mr. **Wilson**. Yes, sir.

Senator **Ribicoff**. Now, could you tell us what the situation is with Imperial, Hoechst, Montiedison, BASF, Bayer, AKZO, and Rhone-Poulenc.

Mr. **Wilson**. Well, Imperial Chemical Industries has facilities around the world. As you see, they are No. 2. And I do not know just exactly what percentage of their total productive capacity is outside of the United Kingdom, but I say it would be very substantial.

Senator **Ribicoff**. I am curious how many of these major foreign chemical companies have plants in the United States.

Mr. **Wilson**. Many of them. Imperial Chemical Industries does. BASF does. Montiedison, to my knowledge, does not. Bayer has an association here. AKZO owns American ENKA. And I believe also—Hoechst is associated with Wyandotte Co.

Senator **Ribicoff**. Wyandotte?

Mr. **Wilson**. I am sorry. BASF owns Wyandotte. Hoechst has its own large investment in the United States.

Senator **Ribicoff**. You see, the problem is that we go abroad. But even though these foreign companies all have big American markets, they do not seem to be establishing plants here. I think the key to all of this, it is not just a question of the profits that are being earned but the jobs that are being lost. This, of course, explains what you heard about today from the AFL–CIO about exporting jobs. The fear is that even in high technology, by exporting our technology abroad, we are even losing out in that field.

Mr. Wilson. Well, Senator, technology is a two-way street.

Senator Ribicoff. I know, but it keeps on looking one way. We hear this contention all the time. But I must confess I was rather shocked at the list of the technology in the aerospace industry being sent abroad that was given this morning. Frankly, I had no idea that there was such a long list of large ticket items about to be manufactured abroad.

Mr. Wilson. Senator, I might say that it is the policy of our company not to export technology abroad that is primarily an in-house technology with us and not owned by other companies. We try and maintain this as long as we possibly can in the United States. And at no time do we export technology on a license basis or otherwise unless it is freely available from other competitors, usually both outside and inside the United States.

Now, on the other hand, we have had technology flow in this direction, and I think it might be well to mention that probably polyethylene, low density polyethylene, which is probably the world's largest volume plastic material, is a discovery of ICI, and we worked under those patents. Ethylene oxide which goes into antifreeze, as you may know, and also is one of the principal ingredients in making the glycol that goes into synthetic textile fibers also is a product that the technology came from France years ago.

So these technologies have been flowing in both directions and I think it has been helpful.

Senator Ribicoff. Senator Fannin.

Senator Fannin. Thank you, Mr. Chairman.

Mr. Wilson, I had the opportunity to visit Bayer in West Germany and they were explaining to us, that they brought out aspirin in 1890 or something like that, all the dyes and chemicals that they fostered the original patents on, and so it is a two-way street, as you say. I just want to bring that out, that many of those companies have been very prominent in developments of new processes, new technologies so it is very important that we work back and forth with those countries.

Of course, our problem is the GATT. You mention it here. We are not getting a fair break because we are outvoted in most every instance when something comes up. We have used the automotive industry as an example, where the tariffs have gone down. It was a mistake and we have not been able to correct it. Here we are down to 3 percent and they are flooding our markets. So your comments there about GATT are very appropriate. I just hope we can do something about it.

I think we should not jump to conclusions. We are prone to hear testimony from one group and we jump to a conclusion and then we hear contrary testimony from another. We have heard from several multinational corporations now and I am still trying to surface an opinion on some of the problems that we are involved in.

I am vitally concerned about how we can either hold jobs in this country or bring jobs back into this country and I think your testimony is very valuable in presenting to us what has happened in your particular case. Then we have some of the corporations—some of the multinationals that we are concerned about, that have gone to the foreign countries just to export back to the United States and that is of great concern to us.

Mr. Wilson, you commented on the tax aspect of foreign investment and to your knowledge, have the proponents of the elimination of the tax deferral taken into consideration that if foreign earnings are to be taxed currently, they will be offset by foreign losses, and have they considered how much that loss in revenue will be?

Mr. WILSON. Senator, would you repeat that again, please?

Senator FANNIN. Yes. I am just asking whether or not the proponents of elimination of the tax deferral have really considered the effects that may accrue. for corporations electing the overall limitation to use their excess credit from high-tax countries to offset the U.S. tax on income from low-tax countries. So have we taken into perspective the full effects of what elimination of the tax deferral would be?

Mr. WILSON. I do not think we have. We have looked at this and I think what you are saying is that taking the full effect of all taxes paid to foreign governments——

Senator FANNIN. Yes.

Mr. WILSON (continuing). As a whole, which is the way we do it now——

Senator FANNIN. Yes. What I am concerned about is whether elimination of deferral may reduce rather than increase the taxpayers' total U.S. tax burden. In other words, your corporation may pay less tax to the United States if we do not properly handle our tax program. That is what I am concerned about.

Mr. WILSON. That is right. I think you are right. The relationships are complex.

Senator FANNIN. Of course, we have had testimony that this would not happen and we have had others that I have talked to that were very concerned that the end result may not be helpful to us.

Mr. WILSON. Detrimental.

Senator FANNIN. In the appendix of the testimony of the preceding witness we have been told that the foreign tax credit is a gimmick. The argument is that a company in Arizona, for instance, must pay a 12-percent Arizona corporate income tax in addition to Federal income tax and only deduct the Arizona tax. Thus, when a foreign subsidiary gets a credit for foreign taxes paid it is worth twice as much.

I think this reasoning overlooks two factors, and I would like to see what you think. No. 1, the rates of most foreign countries are equivalent to the U.S. corporate tax. Is that right?

Mr. WILSON. Right.

Senator FANNIN. And without the credit we would be imposing a severe penalty on U.S. subsidiaries.

Mr. WILSON. Right.

Senator FANNIN. And No. 2, in addition to foreign income taxes, the subsidiaries pay sales tax—they pay sales taxes, and turnover taxes, transmission, trade, excise, capital, franchise, and property taxes which are not creditable, as I understand.

Mr. WILSON. That is right.

Senator FANNIN. In addition, these taxes comprise a much higher percentage of the total tax burden abroad than comparable taxes do domestically.

Now, what I am concerned about is that it sounds very simple for us to say, well, here is the amount of tax that is being paid to these foreign countries. We are not receiving our just share. But in the overall would you care to elaborate on what could happen if we took that position and we just said, well, fine, then we are going to tax you this amount because you are paying the foreign countries that amount?

Mr. WILSON. Senator Fannin, I think we have to look at it from this standpoint. Normally—and I think you mentioned the State of Arizona. You just used that as an example.

Senator FANNIN. That is right. It happens to be my State.

Mr. WILSON. If we had a manufacturing facility in the State of Arizona and we were trying to export from that facility to one of the foreign countries, chances are we would not be able to do so if the product that is made in that facility is made in the foreign country because of all of the advantages that they have. So the local or State tax really has no bearing in the movement of that product.

But if we imposed a tax on the subsidiary that might be operating in the foreign country, it would then make that subsidiary noncompetitive with his competitors in that market.

Do you follow what I mean?

Senator FANNIN. Yes. I see it.

Mr. WILSON. Therefore, to not allow credit, full credit for foreign taxes paid on earnings in foreign countries, I think would be a detriment to a company such as ours and many others, possibly all of them. It would have a tendency to put the tax rate up to a very high figure and would cause us to move away from that market location and lose the market, and I do not believe that a market so lost would be picked up by exports from the United States.

Senator FANNIN. Well, I know, Mr. Wilson, you have companies such as you have listed there to compete with in the worldwide market. It is very easy to understand that if you were placed in a different position taxwise, or if we penalized your corporation, they could very well put you out of business.

Mr. WILSON. They certainly could.

Senator FANNIN. That would be the detrimental effect. I am just wondering, as you increase your operations or as you increase your sales in those countries, do you have any percentage that would follow that the exports from this country would increase?

Mr. WILSON. As we increase our sales?

Senator FANNIN. Yes. If you increased a million dollars, would it be an increase of—would your exports tend to increase a certain amount from the United States?

Mr. WILSON. Yes. Senator Fannin, that is part of the oral testimony that I was giving. I believe in our first chart we showed that as we increased our investment in foreign countries, the exports to those foreign countries increased. This is what we call the pull effect.

Now, it sometimes lags for as much as 2 years after the increase, but ——

Senator FANNIN. Well, that is being disputed, you know, Mr. Wilson.

Mr. WILSON. Yes, I know.

Senator FANNIN. So I just wanted your position on that question. I have been told that in my State of Arizona, we have electronic manufacturing concerns that are able to increase their employment in our State because they can get component parts manufactured in other countries that are then shipped into Arizona, and the overall unit is constructed, supplying labor and higher skilled labor for American workers.

Now, does this work out in your operations?

Mr. WILSON. Yes, Senator Fannin. We have only one example of this in our company and it is very, very small. We assemble electronic components in Matamoros, Mexico, and this amounts to about $400,000 to $500,000 a year. But if we did not assemble these in Matamoros, Mexico, we would lose 150 jobs here in the United States. We just could not compete with the similar products coming in from the eastern countries. And so we have maintained 150 on our employment rolls by moving down for this operation.

Senator FANNIN. In your statement you suggest we should give the administration negotiating authority to eliminate nontariff barriers. But then, in the next paragraph you suggest eliminating foreign nontariff barriers would not help your exports much, you say Union Carbide invests abroad because foreign nontariff barriers would otherwise cut off your exports.

I am just wondering—these statements seem a little confusing and contradictory and not in line with your answers to my questions. Would you care to comment?

Mr. WILSON. Well, Senator Fannin, our thinking in this case is that in Europe when we have looked at some of the nontariff barriers we have been uable to find where they were very detrimental to the basic products that we export to Europe. However, I did mention a few minutes ago that this does affect and the nontariff barriers definitely affect some customers that we have in this country and they are very vital and essential to us. So nontariff barriers do in the ultimate end affect us.

Senator FANNIN. Well, so far as our exports are concerned, it seems to be the most serious barriers we have from the standpoint of the Japanese, but if the Congress gave the President authority to cut U.S. chemical tariffs by 50 percent and to eliminate the American selling price on benzanoid chemicals, and used that authority to negotiate down, say, the high tariff, foreign tariffs, and taxes on American automobiles, would you approve that bargain? In other words, we are talking about product A being utilized to assist product B.

Mr. WILSON. This is the reduction of—well, in the first package, under the Kennedy round, I believe that it was agreed at that time that there would be a 50-percent reduction on certain U.S. tariffs, chemical tariffs in the United States and a 50-percent reduction in Europe, but the 50-percent reduction in Europe was based on the fact that it would be reduced 20 percent and that the additional 30 percent was based on the fact that the American selling price was abolished.

Frankly, I do not know how a nontariff barrier got into these negotiations. I did not think it was supposed to be in, but it did happen that way.

Now, at that time I think many people in the chemical industry in this country were very much opposed to doing away with the American selling price. But I believe today, Senator, that the Manufacturing Chemists Asosciation, at least, would go along with the fact that the ASP could be done away with but only on the basis that we get something in return and maybe that adidtional 30 percent tariff reduction in Europe on our imports going into Europe would be a place to start.

Senator FANNIN. But that is a return you want to be in your industry.

Mr. Wilson. Yes; we would like for it to be in our industry.

Senator Fannin. Yes. Certainly. I was just giving a hypothetical question and I know the chemical industry, as I understand, did object to some of the provisions in the Kennedy round because there were some tradeoffs and do not know how we are going to correct all of these problems until we do get it straightened out.

Thank you very much.

Mr. Wilson. Thank you, sir.

Senator Ribicoff. Thank you very much for being with us today, Mr. Wilson. Your testimony has been most helpful.

(Mr. Wilson's prepared statement and a letter from Mr. Wilson to Senator Ribicoff follows) :

Statement of F. Perry Wilson, Chairman of the Board, Union Carbide Corp.

Mr. Chairman and members of the Committee, my name is F. Perry Wilson. I am Chairman of the Board of Union Carbide Corporation. Union Carbide is a major manufacturer of chemicals, plastics. industrial gases, carbon products, metals, and consumer products. The Corporation is chartered in New York State and has production facilities in 44 states. It is a multinational corporation with affiliated manufacturing facilities in 30 foreign countries. Total consolidated sales exceeded $3.2 billion last year, about two-thirds in the domestic market and one third in foreign markets. Our exports from the United States exceeded $260 million last year. I have had considerable personal exposure to our international operations, having served as the executive president of Union Carbide Canada, Ltd., and as president of Union Carbide International Company, a former division which for many years represented the Corporation's overseas interests. We are glad to have this opportunity to participate in the Subcommittee's hearings on the economic impact of the multinational corporation.

In view of the testimony of other witnesses, there is no need for me to again go into the detail of the problems which the United States faces in international trade. The existence of almost a $7.0 billion trade deficit is, by itself, dramatic evidence that our nation has entered a new era in international economic relations.

Recently, much of the attention given to the adverse changes in U.S. trade patterns has focused on the multinational corporation as a major factor and influence with respect to world production and trade. As you know, legislation to restrict multinational corporations' activities is presently pending before the Congress.

The impact of multinational corporations has been the subject of extensive studies by government agencies, by industry and trade associations, by industrial companies, and by economists and scholars both here and abroad. In this connection we believe it may be helpful to provide the members of the Subcommittee with a picture of how at least one multinational corporation operates, and of the benefits which its overseas activities bring to the U.S. economy, and to offer some suggestions for U.S. international trade policy in the years ahead. Our experience as a multinational corporation in the chemical industry is admittedly not characteristic of every firm in every industry, but we are sure it is shared by most of the chemical industry and by many other major American international companies.

Let me emphasize by stating at the outset that Union Carbide would prefer to confine its manufacturing efforts to the United States. We would rather build plants and manufacture our products in the United States instead of in a foreign country. We would prefer to serve foreign markets with exports from the United States, whenever and wherever that is possible. There are several reasons for this. In addition to all the commercial risks involved in any major investment decision, a foreign investment in manufacturing facilities brings a broad range of new and unfamiliar problems and risks: such as, currently fluctuation and convertibility; exchange controls; government regulatory policies; the potential for expropriation or nationalization; a lack of trained personnel together with new concepts of employee and labor relations; different legal, tax, and accounting systems and practices; to say nothing of language and communication difficulties.

WHY OVERSEAS INVESTMENTS ARE MADE

Why, then, do we make investments abroad? The reasons can be outlined by briefly tracing how our business in foreign countries begins and expands. Foreign demand for most of our products normally manifests itself in the beginning by unsolicited orders for export from here. As such demand grows the first step has usually been to appoint independent sales agents in the countries involved. With further expansion of demand, we then send our own marketing representatives to better promote exports from our U.S. production facilities.

The crucial decision point comes when the market in that foreign country (or aera) becomes large enough, often through our own marketing efforts, to support local production. If local competitive facilities should be installed, it would become increasingly difficult and uneconomic to continue selling abroad because of transtation costs, import duties and other costs not borne by the local competitor, and often because of restrictions or barriers imposed by many foreign governments. At this point, we, as any American exporter, would have two basic alternatives: to give up the foreign market in which we have invested a good deal of time and money to develop, or to install a manufacturing operation within the market. And one of the things that our experience makes clear: if we do not respond at this point to the local market conditions by building a plant, some other international competitor certainly will—hence, we would lose the export position whether or not we make the foreign manufacturing investment.

Because of this kind of economic competitive pressure which results from the normal industrial growth and development in foreign countries, companies like Union Carbide have found it necessary to invest in foreign manufacturing facilities. Nothing in our experience leads us to believe that if an American-owned foreign production facility installed under these conditions were to be terminated, its local sales volume would automatically be replaced by an equivalent volume of exports from the U.S.

UNION CARBIDE'S STUDY OF FOREIGN INVESTMENT

As public interest in the multinational corporation increased, we decided to undertake a thorough and detailed study of Union Carbide's international investments with the aim of determining their impact on our domestic business, our exports, our employment, and on the U.S. balance of trade and balance of payments. The results of this study were published in October of 1972 in a 93 page report. Copies of this report have been supplied to the Committee.

The Carbide study covered the period from 1951 through 1970 and involved a detailed examination and analysis of our exports, product-by-product and country-by country, and their realtionship to our investment in manufacturing facilities in those countries.

This detailed study clearly demonstrates that:

1. Union Carbide's exports from the United States have increased, not decreased, as our investment in foreign facilities has increased. In fact there has been a direct positive correlation between the trends of affiliated overseas production and our export volume from the United States (Chart No. 1, attached, depicts this relationship).

Our exports from the United States in 1970 at $253 million were seven times greater than they were in 1951, compared to a five-fold increase in production of affiliated foreign companies. In 1951, Union Carbide exported only 5% of its domestic production. By 1970 this increased to 11%.

2. Rather than "export" jobs, we have found that our foreign investments result in the creation of domestic jobs and an increase in product exports from our U.S. plants because of what we call the "pull" effect. The establishment of a new plant within a foreign market obviously reduces U.S. exports of the products manufactured by the new plant, but in time, our study shows, this loss of exports is far more than offset by increase in export of intermediate, allied, or more technologically sophisticated products. The presence on the scene in the foreign market of an expanded local organization, required because of the local manufacturing facility, provides a broad, more effective and more aggressive overall marketing effort than can be achieved just with an export market organization, or a sales agent.

This "pull" effect is tangible and measurable. Let me offer two specific examples of what it means to Union Carbide:

(a) Our international marketing managers were asked to make a detailed analysis product-by-product, country-by-country, year-by-year, of what their probable export experience would have been if the Corporation had not made any additional foreign investment after 1951, taking into consideration all changing external factors as they took place, such as tariffs, quotas, currency effects, as well as competitive plant installations. These detailed estimates produced a total "theoretical" export figure of $163 million for 1970, assuming foreign investment level the same as 1951. This is $90 million less than the actual exports of $253 million in 1970. Over the 20-year period from 1951 through 1970, we estimate our total exports would have been $500 million less if we had not made these foreign investments.

(b) We then estimated what this additional $90 million worth of exports would have meant to our 1970 employment levels. With export volume at about 11% of domestic sales, there is no doubt that at least one out of ten, or 5,300, of our employees rely on exports for their jobs. The $90 million figure we have mentioned represented 36% of our 1970 exports. A 36% reduction of our export-related employees would have meant roughly a reduction of 1,950 employees. Therefore, we are satisfied that our foreign investments, rather than "exporting jobs," have created at least 1,950 additional jobs in the United States.

As specific examples of the presence or absence of "pull" effect, we have included two additional charts.

Chart No. 2 (attached) presents the export history of a major Union Carbide product group to Australia from 1951 through 1970. From 1951 through 1956, export sales of these products to Australia were handled by a local independent agent—and the sales remained stable, at a level of less than half a million dollars a year. In 1957, we brought on-stream an Australian manufacturing facility for these products, and the initial result was a slight drop in our exports to Australia. However, the effect of a strong local organizational presence, and the marketing "pull" of a local production facility began to show up dramatically in 1960. Our export of this product group to Australia today is five times as large as it would be if we had not invested in a plant there.

Chart No. 3 (attached) demonstrates what can happen when the decision is made not to protect an export developed market by building a local manufacturing facility. For a variety of reasons, Union Carbide decided not to build a plant for the production of this particular product group in Europe. A foreign competitor did build such a plant in 1966 and our export sales plummeted from a high of $9.5 million in 1965 to zero in 1969.

These charts do not represent unique situations or special circumstances. All over the world, exports of Union Carbide to foreign markets in which we have affiliated manufacturing facilities tend to be at a higher level and to show equivalent or greater rates of growth than exports to areas where Union Carbide has no manufacturing investment.

FOREIGN INVESTMENTS PRODUCE OTHER BENEFITS

These multinational aspects of Union Carbide's operations also produce other benefits for the U.S. economy. Our net positive contribution to the U.S. balance of payments was $236 million in 1970 and exceeded $1 billion during the period 1963–1970 (as shown on Chart No. 4 attached). The dividends and other income received from foreign affiliated corporations exceeded dollar investment sent from the U.S. by $20 million in 1970 and by $246 million over the last 20 years.

It should not be overlooked that the net inflow of income from the overseas affiliates of all U.S. corporations will again make the largest single positive contribution to the U.S. balance of payments—an estimated $5 billion in 1972.

We are firmly convinced that the record achieved by Union Carbide's foreign investments and multinational activities clearly establishes that they have benefited the United States. It demonstrates that our interests in foreign production facilities produce significant gains for our employees, our stockholders, for the United States Government, and for the national economy and well-being.

From this record it would seem evident that attempting to solve U.S. international trade problems by taking it "out of the hides" of multinational corporations would almost surely be self-defeating and counter-productive.

THE TAX ASPECTS OF FOREIGN INVESTMENT

Among the proposals before Congress at this time are some which would either repeal the foreign tax credit or require payment of U.S. income tax on earnings retained abroad by controlled foreign corporations or both. The combined impact of these proposals would boost the overall tax burden on Union Carbide's share of the earnings of its overseas affiliates to as much as 79% of pre-tax income. Certainly this would represent a confiscatory tax rate. It would put most of our foreign manufacturing affiliates in a non-competitive position. and the effect would be the more severe because of the capital-intensive nature of most of our business. It would deny our foreign affiliates the funds they need to remain modern and competitive. It would certainly tend to force the liquidation of our foreign operations—but it would not benefit the U.S. economy, and it would not create any jobs in the United States.

The problem facing Union Carbide and our foreign affiliates in remaining competitive internationally even with no adverse change in tax treatment is reflected in the listing below of the world's ten largest chemical companies.

Company and country:	*1971 sales (millions)*
du Pont, U.S.A	$3, 848
Imperial Chemical Industry, United Kingdom	3, 717
Hoechst, West Germany	3, 487
Montedison, Italy	3, 270
BASF, West Germany	3, 210
Union Carbide, U.S.A	3, 038
Bayer, West Germany	2, 649
AKZO, Netherlands	2, 307
Rhone-Poulenc, France	2, 181
Monsanto, U.S.A	2, 087

All of these companies are strongly competitive and have foreign operations that make them multinational. They are our competitors. They are well entrenched in the markets of their own countries, and they are becoming increasingly competitive in third country markets. Only three of the ten are U.S. companies. Some of the countries involved—France, Italy, and the Netherlands—exempt from home country taxes all foreign source income realized by their nationals. The others follow the U.S. practice of allowing a credit for foreign income taxes paid on income remitted from abroad to the extent of the home country tax on such foreign income. Today there is no country which taxes the undistributed earnings of a foreign operating subsidiary. Higher taxes on the foreign source income of the three U.S. multinational chemical companies listed above would only tend to benefit the seven foreign chemical competitors. The stockholders and employees of these foreign competitors and their national economies would be the gainers, ours the losesr.

We should not leave this question of foreign tax credit without first discussing an aspect of it which seems to be widely misunderstood. As you know, the tax regulations of the United States, through a specific formula, make it completely impossible for foreign tax credits to reduce, in any way, the U.S. tax liability which exists on income generated within the United States. Stated another way, the effective tax rate U.S. corporations pay on their income earned domestically would be exactly the same if they had no foreign operations.

Our experiences with taxes abroad also clearly demonstrates that U.S. corporations do not go overseas to escape or evade taxes. During the five year period from 1966 to 1970, Union Carbide's share of tax payments made by its foreign affiliates to foreign governments averaged 52.5% of its share of total pre-tax income. Obviously, we are not investing overseas to evade tax payments.

TECHNOLOGY TRANSFER

The chemical industry is a high technology industry. At Union Carbide, our technology, patents, and know-how are among our most important assets. We are concerned, therefore, with proposals that would impose new restrictions on the international exchange of technology. In 1970, we received fees in excess of $70 million, mainly from affiliated foreign companies, as payments for the continuing use of our technology, services, and know-how. These fees are an important source of revenue for our present research and development programs and represent a significant contribution to the U.S. balance of payments. A reduction in this revenue would reduce our capability to invest in new research and development—and I should note that research is very costly today. Because of the great importance of our technology to us, we do not make it available to foreign competitors as long as it is proprietary and not available from other sources.

The International Competitive Scene

Before offering some specific suggestions with respect to U.S. policy and the general framework for trade and investment, let me make a few observations about the climate of change and competition which we face today and foresee for the future.

Competitively we foresee a great deal of what we have experienced in the past—namely, continuous change. The chemical industry within the U.S. has been operating under extreme competitive pressures. For example, my company's overall selling price index stands at 79% of the 1957–59 base period, and our profits in absolute terms are still below those realized in 1966 in spite of the fact that since 1966 we have invested $1.6 billion in the U.S. economy to expand and modernize our facilities.

In addition to a continuation of strong domestic competition, we anticipate increasing competition from abroad. Although the U.S. chemical industry has consistently made a favorable contribution to this country's balance of trade and balance of payments, there has been some erosion in this contribution in recent years. While exports have been increasing at about 7% a year, chemical imports into the U.S. have been increasing at the rapid rate of 15%. The American share of world chemical exports has declined from 29% ten years ago, to paproximately 20% last year.

While the United States is still a high cost area, in terms of wage rates and salaries, our evaluation indicates some closing of the differential in labor costs between ourselves and our foreign competitors. However, if wage increases continue to exceed gains in productivity, and there is no end in sight to inflation we will lose competitive capability in international markets. This in turn would mean less exports and fewer domestic jobs.

The domestic energy crisis, which is of special concern to those of us who use petroleum as a raw material for the manufacture of chemicals and plastics as well as a source of energy, and the growing role of the Organization of Petroleum Exporting Countries add new dimensions to the problems of international trade. Similarly, environmental control requirements which may be imposed on U.S. manufacturers, but not on our foreign competitors will have an impact on international trade.

Our foreign competitors are vigorous, active, and capable. And they are strongly backed by their governments; in some cases they are owned, at least in part, by those governments.

There is, of course, the "managed economy" of Japan, and well-managed it is. The close interrelationship of industry, finance, labor, and the government in Japan has been well documented. Japan's complete reliance on trade is also well known. The upgrading of imported raw materials into more sophisticated export products has become the lifeblood of that island's economy. Their exports have been highly subsidized in order to attain and maintain the needed high volume of production to keep their industrial economy operating in high gear.

As we turn to the European scene we see an increasing role being played by the governments in the industrial sector. Mergers and acquisitions which lead to a stronger, more internationally competitive company are being encouraged by European governments. Further, probably the most disquieting development is the tendency towards state ownership in, or control of, industry in Europe. An official of the EEC estimated last year that 40% of the Gross National Product (GNP) of the EEC was manufactured in state-owned or controlled enterprises, and this figure would soon be approximately 50%.

Historically, the countries of Europe have relied a great deal on exports to increase their GNP. In certain instances exports account for one-fourth to one-third of the GNP of some European countries. Consequently, the exports of these countries have been highly favored—either in the form of subsidization or by way of special tax treatment accorded to income earned on exports. For example. France, West Germany, Belgium, the Netherlands, Italy. and the United Kingdom provide favorable tax treatment to export sales income. Our foreign competitors have become revitalized, full-grown contenders.

THE U.S. ATTITUDE AND APPROACH

In the fact of a vigorous spirit of growth and competition abroad, we believe that the attitudes and policies of the U.S. Government will have a significant impact on the ability and capability of American manufacturers to meet the challenge of the 1970's and the 1980's.

Since we have rapidly moved to a point in time where our foreign competitors are now equals, it accordingly seems fitting that the trade policy and the overall foreign economic policy of the United States are being subjected to thorough review. We believe it is time for American foreign economic policy to occupy its proper place in international affairs. We obviously can no longer afford to have foreign economic policy relegated to a position of secondary importance behind the dominant foreign political policy of this country.

There is no doubt that there are some serious problems in this country—particularly in certain sectors where workers have become dislocated from their jobs because of imports. In such instances, we believe specific solutions should be devised to solve these specific problems—not broad-brush legislation which would damn all large international corporations, including those which are making positive contributions to the U.S. economy.

All of these problems come finally to focus in the Congress and in its responsibility for the enactment of legislation setting foreign economic policy. We believe these problems cannot be allowed to drift. We need a new policy and hope the Congress will act this year on new trade legislation. I would like to offer suggestions for such a trade bill:

1. We believe it should include what has come to be called a safeguard mechanism. Such a mechanism should provide for a period of temporary, additional protection for those import-sensitive industries that are threatened with a sudden, disruptive influx of imports. It should be flexible enough to deal with a wide variety of problems and yet capable of providing prompt enough action to be meaningful. A commitment to expanded world trade must be pragmatic enough to provide the adjustments needed until our trading partners adopt similar trading principles.

2. Existing adjustment assistance legislation should be modified so that the criteria for eligibility is less stringent and is more responsive to the need. The programs under adjustment assistance should be extended and improved upon, particularly in the retraining and relocation areas. The emphasis should be on getting those that are dislocated back to work.

In our mind, a time-limited safeguard mechanism in conjunction with a viable adjustment assistance program is essential to the nation in developing and negotiating fair international trade policies and practices with its trading partners. In this conncention we believe it would be useful if the major trading nations of the world would develop common principles for both a safeguard mechanism and an adjustment assistance program. Accordingly, we feel the Congress should provide the authority to negotiate such an international agreement.

3. The Congress should also provide the authority to begin multilateral negotiations aimed at eliminating non-tariff barriers.

We believe that, on balance, the elimination of non-tariff barriers contributes to a reduction in the tensions presently found in international trading practices. In many instances it appears that elimination of non-tariff barriers would be helpful in increasing exports of certain U.S. industries. However, in the case of Union Carbide we would not expect a major boost to our exports to result from such negotiations.

4. The United States Government should organize and staff itself to deal with these new realities of international trade. Certainly, the creation of the Council for International Economic Policy in the White House is a step in the right direction, and so is the creation of the Subcommittee on International Trade by the Senate Finance Committee. However, there is more that should be done to assure that foreign economic policy does not take a back seat to our foreign political policy. The economic policy apparatus of the Executive branch should be centralized so that business and the public will know where to go for guidance, assistance, and answers. The structure should also provide for close consultation with Congress and with industry and labor in future trade negotiations.

On the international scene we see the following important needs:

1. The General Agreement on Tariffs and Trade (GATT) was concluded more than 25 years ago. We believe it is appropriate, at a minimum, to call for a reexamination of the basic structure and principles of the GATT to see if it fully meets our needs and those of the world in the 1970's. The United States cannot afford to have its international trading ability hampered by adherence to a set of principles and agreements which may have become shop-worn and outdated, and which other nations tend to ignore anyway. GATT is becoming very European. Over half of its voting members are either members of, or have some

allegiance to, the European Economic Community. Thus, its current voting structure may not provide an equitable voice for the long-term interests of the United States. One suggestion for a restructuring of GATT is the Steering Committee approach proposed by the Rey Report to the Office of Economic Cooperation and Development (OECD).

2. To prevent "pollution havens," the United Nations International Code of Standards governing environmental controls should be supported by this country.

Although we have touched primarily on those areas affecting international policy, we recognize full well that the domestic policies of the government are equally as important in maintaining the international competitive posture of the United States. In this regard we welcome features which stimulate and encourage productivity in the United States. The investment tax credit and the ADR system of depreciation are, to us, vital elements in a program to make American production more competitive. The DISC provisions for stimulating exports are already beginning to have a favorable effect on Union Carbide's exports from the U.S. We believe that the DISC concept should not only be continued but should be expanded.

There are, of course, many other valuable recommendations and suggestions dealing with an expansion of U.S. exports that we believe should, and will, be considered by the Committee when it deals with this area. We would like to call particular attention, in this respect, to the Report of the National Export Expansion Council's Industry Advisory Committee on Chemicals. That report, published by the Department of Commerce in September, 1972, contains a number of specific and useful recommendations dealing with the problems of international trade in chemicals and allied products—all aimed at expanding U.S. exports.

Obviously, the attitude, policies, and programs of the United States Government will have a pronounced effect on the ability of American manufacturers—whether they are multinational or not—to remain competitive and to maintain a reasonable share of the world's markets.

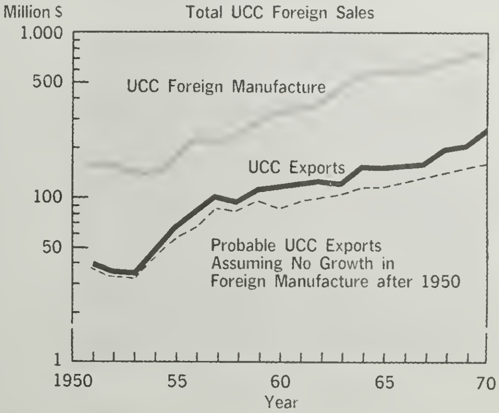
We hope your review and the legislative considerations of the Congress will not be undertaken in a spirit of retreat or despair. They should be undertaken with the aim of creating and executing an integrated innovative policy designed to make U.S. industry fully competitive with those of the other nations of the industrialized world.

If we were to build a wall around America, we would in essence be saying there is nothing new in the future, that the nation is pleased with the status quo. Yet the future holds so many unknown possibilities—the proof of this is the accomplishments realized in the past. The birth of completely new industries and new job opportunities since the turn of the century in America is more than ample testimony to this fact. We have no reason to believe the decades ahead of us will be any different. We in industry seek your help, understanding and cooperation in creating an atmosphere in which such opportunities can flourish.

Thank you.

CHART NO. 1

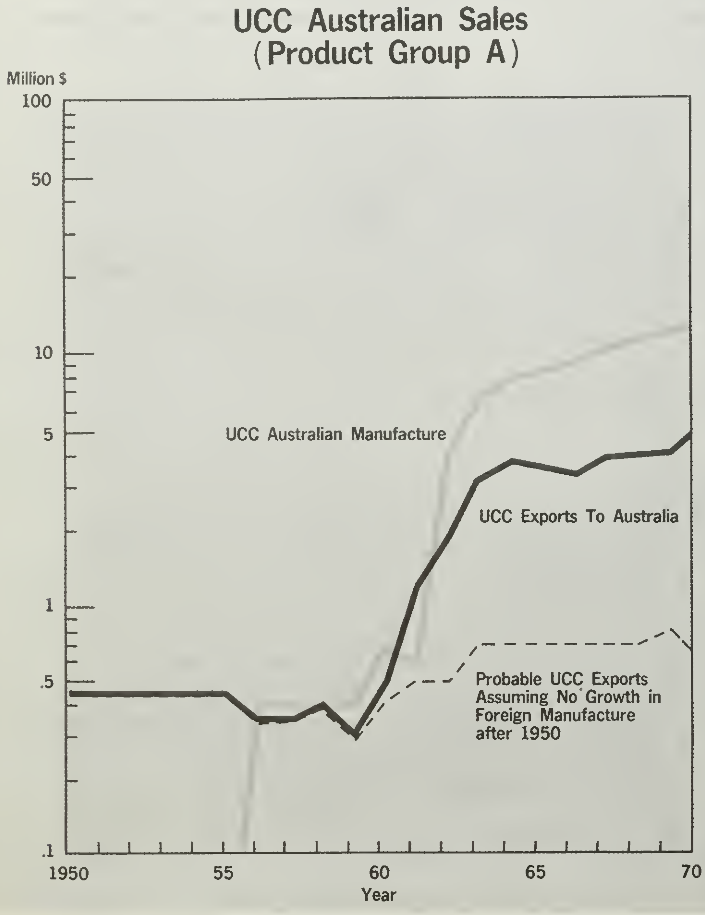
FOREIGN MANUFACTURE "PULLS" U.S. EXPORTS...



- More than half (57%) of Union Carbide's U.S. exports are to or through foreign affiliated companies
- U.S. exports to foreign markets where Union Carbide has manufacturing facilities tend to be at higher level and show same growth rate as exports to areas where Union Carbide has no manufacturing investment
- "Pull effect" responsible for more than $500 million in U.S. export sales which otherwise would have been lost between 1951-70

CHART NO. 2

"PULL" EFFECT: A CASE STUDY



UCC Australian Sales
(Product Group A)

CHART NO. 3

UCC EXPORT SALES to CONTINENTAL EUROPE

(Product Group B 4)

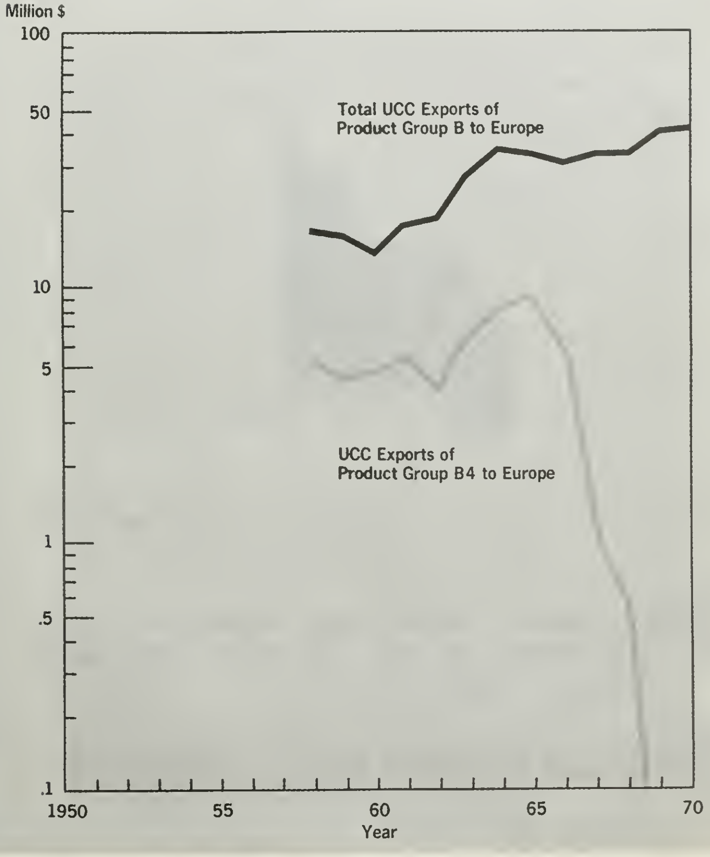
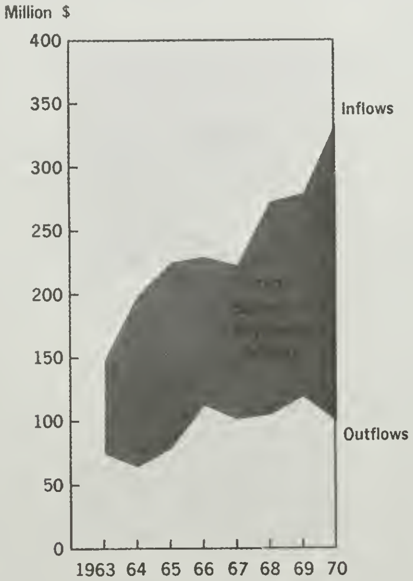


CHART NO. 4

UNION CARBIDE's BALANCE OF PAYMENTS CONTRIBUTIONS...



- More than a billion dollar favorable contribution to U.S. balance of payments between 1963-70

- Over last five years positive contribution has averaged more than 150 million surplus per year

Union Carbide Corp.,
Washington, D.C., March 27, 1973.

Senator Abraham Ribicoff,
Chairman, Subcommittee on International Trade, Senate Finance Committee, Senate Office Building, Washington, D.C.

Dear Mr. Chairman: During the appearance of Mr. F. P. Wilson, Chairman of Union Carbide Corporation, on March 6, 1973 before Senator Ribicoff's Subcommittee on International Trade, Senator Fannin raised a question about Mr. Wilson's testimony concerning non-tariff barriers. The purpose of this letter is to expand upon and clarify the response of Mr. Wilson and to avoid any misunderstandings. Senator Fannin's question was as follows:

"On page 17 of your statement you suggest we should give the Administration negotiating authority to eliminate non-tariff barriers. But then, in the next paragraph you suggest that eliminating foreign *non-tariff barriers* would not help your exports much, and on pages 3 and 4 you say Union Carbide invests abroad because foreign *non-tariff barriers* would otherwise cut off your exports.

"I am wondering—these statements seem a little confusing and contradictory and not in line with your answers to my questions. Would you care to comment?"

The non-tariff barriers (NTB's) mentioned on page 17 of Mr. Wilson's statement refers to the GATT inventory of 800 alleged NTB's employed by nations of the world to impede imports from other countries. It is our understanding that these NTB's will be the major topic of the GATT negotiations which are to begin in September of this year. In analyzing Union Carbide's exports to *advanced* nations, we have not uncovered any *major* NTB's (as we define them) which impede or hinder our exports from the U.S. We in Union Carbide do not appear to be facing the type of NTB's that confront the exports of the U.S. automobile industry, or the foreign government procurement practices which hinder exports of the electrical equipment manufacturers.

In attempting to develop a well-balanced alternative to the Hartke-Burke bill we felt that a new trade bill should include negotiating authority to eliminate or reduce non-tariff barriers because it is our understanding that many important American industries *are* adversely affected by them. Even in our case there would be some indirect advantage to the extent that reduction of NTB's were to benefit the exports of our U.S. customers. Further, as indicated in the testimony, we believe the elimination of NTB's would do a great deal to reduce the tensions which presently exist among the major trading nations of the world. We do not feel that these positions are contradictory.

Turning to the Union Carbide statements on pages 3 and 4 where Mr. Wilson indicated that it is difficult to remain competitive through exports if foreign production facilities are installed "because of transportation costs, import duties, and other costs not borne by the local competitor, and often because of *restrictions or barriers* imposed by many governments." Upon reflection we can see where the terms "restrictions or barriers," depending upon how their meaning is interpreted, might cause some confusion or appear contradictory to our comments on NTB's as distinct from other "restrictions."

The "restrictions" or "barriers" which we had in mind, in addition to high tariff walls, are major governmental actions or policies designed to protect the new local foreign producer, such as "closing the border" completely to importation of the specific locally manufactured product, limitation of authorizations or certifications for manufacture, local content rules, etc. Specifically, we think the creation of trading blocs such as EEC and EFTA are examples of governmental action which have forced companies like Union Carbide to install manufacturing facilities within the blocs in order to remain competitive. In our own thinking we do not classify such actions in the normal NTB category since for the most part they would hardly seem subject to negotiation, but this may be a matter of definition.

Since these governmental restrictive actions are usually designed to protect local manufacturing through limiting or discouraging imports in some manner, the question may be raised as to how then our exports from the U.S. can increase in apparent correlation with increase in foreign manufacturing investment—the so-called "pull" effect described in our detailed study. "Union Carbide's International Investment Benefits the U.S. Economy."

As indicated on page 5 of Mr. Wilson's Statement to the Committee, the establishment of a new plant within a foreign market (in reaction to competitive pressures or governmental restrictive action) obviously reduces U.S. exports of the specific product manufactures by the new plant, but in time, our study shows, this loss of exports is far more than made up and offset by increases in exports of intermediate, allied and more technologically sophisiticated products manufactured in the U.S. and not produced locally. The presence on the scene in the foreign market of an expanded local organization, required because of the local manufacturing facility, provides a broad, more effective and more aggressive overall marketing effort that can be achieved just with an export market organization or a sales agent. It should be understood that governmental restrictions normally apply in a major way to the specific product being manufactured locally and hence protected, and not to essential raw materials, intermediates, or "sophisticated" allied products not available in the foreign country.

We hope the foregoing will help to clarify our position on this rather complex matter of "restrictions and barriers" which appears to be quite subject to differences in definition and interpretation.

Mr. Wilson's comments about the American Selling Price (ASP) issue may also warrant some amplification. The chemical industry generally recognizes that ASP will be included in negotiations on non-tariff barriers, and this inclusion raises two fundamental questions: What method of custom valuation will replace ASP, and what will the United States get from its trading partners in return for repeal of ASP.

It is our impression that the U.S. chemical industry believes that any replacement for ASP should be based on the principle of equivalent protection. As to what the U.S. would get in return, we believe it would be appropriate for the Europeans to start with the 30 percentage point reduction in their import duties on chemicals. However, since the United States has already reduced its chemical duties by 50 percent, we feel additional compensation from the Europeans and our other trading partners would also be in order.

Very truly yours,

M. G. Dial, Jr.

Appendix A

The Multinational Corporation and the World Economy—Prepared by the Staff for the use of the Subcommittee on International Trade

93d Congress }
1st Session }

COMMITTEE PRINT

THE MULTINATIONAL CORPORATION AND THE WORLD ECONOMY

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*

Prepared by the Staff for the use of the
Subcommittee on International Trade

FEBRUARY 26, 1973

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THE MULTINATIONAL CORPORATION AND THE WORLD ECONOMY

Introduction

Friction between the multinational corporation, with its supranational point of view, and the nation-state with its national economic concerns, has given rise to a host of economic and political problems.

What is at issue today is the degree of freedom that multinationals should have or the extent of regulation that should be imposed on their present operations and future growth. Two developments in the past fifteen years have focused public attention on multinational corporations: first, the massive influx of U.S. capital into Europe; and second, the continuing deficit in the U.S. balance of payments.

The Labor Charge

In the United States, organized labor has charged that multinational corporations export American jobs through the transfer of precious technology and productive facilities to foreign nations; erode our tax base and exacerbate our balance of payments problems.

In testimony before the Subcommittee on International Trade of the Senate Finance Committee in May, 1971, AFL–CIO President George Meany stated:

"Operations by American companies obviously displace United States produced goods in both American markets and world markets. These companies export American technology—some of it developed through the expenditure of Government funds paid by American taxpayers. Their biggest export, of course, is United States jobs.

"These multinational firms can juggle the production of parts and finished products from one subsidiary in one country to another. A multinational corporation can produce components in widely separated plants in Korea, Taiwan, and the United States, assemble the product in Mexico and sell the product in the United States at a U.S. price tag and frequently with a U.S. brand name. Or the goods produced in the multinational plants in a foreign country are sold in foreign markets, thus taking away the markets of U.S.-made goods.

"The multinational firms can juggle their bookkeeping and their prices and their taxes. Their export and import transactions are within the corporation, determined by the executives of the corporation—all for the benefit and profit of the corporation. This is not foreign trade. Surely it is not foreign competition.

"The complex operations of multinationals—with the aid of Madison Avenue advertising—have utterly confused the picture of the national origin of products. For example, Ford's Pinto has been heralded as the U.S. answer to imported small cars. But the engines are imported from England and Germany, and the standard transmissions are imported from Europe.

"This phenomenon is far different from the development of corporations here in America during the last 100 years. The multinational is not simply an American company moving to a new locality where the same laws apply and where it is still within the jurisdiction of Congress and the Government of the United States. This is a runaway corporation, going far beyond our borders. This is a runaway to a country with different laws, different institutions, and different labor and social standards. In most instances, even the name changes.

"Ironically these are the same multinational corporations who have sought to influence U.S. trade legislation in the name of 'free trade.'

"Meanwhile, back in the United States, expansion of large national corporations has been tempered to a degree by Government regulations, standards, and controls. And, in the past few decades, large U.S. corporations have had to meet responsibilities to their employees through labor unions. Moreover, the multinationals' global operations are beyond the reach of present U.S. law or the laws of any single nation."

The Business Defense

On the other side, defenders of multinational corporations claim that rather than export jobs, multinational corporations help create jobs in the United States, make us more competitive in international markets and improve our balance of payments position.

Former Secretary of Agriculture, Orville Freeman, who is currently President of "Business International" stated before the Subcommittee;

"By definition, a multinational company is one that looks at the entire world as an area of operation, and acts that way. It searches everywhere in the world for new technology, talented people, new processes, raw materials, ideas and capital. It thinks of the entire world as its market and it strives to serve customers everywhere. It produces goods or renders services wherever they can be economically produced or rendered to serve one or more markets at a profit.

"These international companies have demonstrated great dynamism and adaptive power in responding to what might be described as an emerging world economy—the product of modern communication and transportation, which has shrunk the world from the size of a balloon to the size of a grape. Figures are less than exact, but the most solid estimates indicate that the level of production of multinational corporations has reached $450 billion (more than the GNP of any country in the world other than the United States), of which the United States multinational companies deliver an estimated $213 billion a year. This level of output by American companies outside the United States is more than four times U.S. exports. It rests on an investment of $140 billion and carries a net worth of approximately $70 billion. It returned to the United States in 1970 through dividends, interest, royalties, and fees $7,640 million. Its net contribution to our balance of payments for 1970 at $3,640 million was $1,500 million more than the merchandise export surplus. It would have been double this figure if records of exports to subsidiaries had been kept after 1965, when such exports amounted to $4,420 million.

"Internationalization of production of this magnitude has come about because it's effective. It works. It involves a major extension of the economies of scale and management, involving high levels of capital and advanced organization skills which make possible the efficient use of science and technology. The growth rate of production by international corporations has been high and remarkably steady since 1950, at a level of 10 percent. This compares with a noninternationalized output rise in the western developed countries at a much more modest rate of 4 percent."

Another defender of international corporations, Dr. N. R. Danielian, President of the International Economic Policy Association, commented:

"The multinational corporations are caught in the contradictions of our policies in defense, aid, and trade. Their alleged sins are now being decried among academicians, certain spokesmen of labor and even in ministerial conferences in Europe. These corporations are accused of exporting jobs; but they seldom receive credit for the jobs they create from exports—as in fact they produce one-fourth of the total U.S. exports with their shipments to their overseas affiliates.

"The implication that 'run-away' U.S. companies serve the U.S. market with cheap, foreign labor simply is inaccurate in all but a few cases. To take one example: Of the 1,321,000 foreign cars imported during 1970, only 123,299, or 9.3 percent, were made by U.S. subsidiaries abroad. The rest were Volkswagens, Toyotas, Fiats, and the like, all produced by foreign-owned companies. In the case of the 13 million short tons of iron and steel imported during 1970, hardly any could be attributed to American-owned subsidiaries abroad.

"If all U.S. investments abroad were suddenly eliminated, the United States would be worse off by nearly $17 billion in its international receipts, two-thirds in exports and one-third in investment income, not including the $1.5 billion income from royalties and fees. As sympathetic as I am to labor's viewpoint in the matter of employment, I sincerely believe that they are whipping the wrong horse in attacking international or multinational corporations. Most of our imports come from foreign-owned enterprises; and if third country markets could not be supplied by U.S. subsidiaries abroad, they would simply be supplied by foreign competitors.

"European opinion tends to blame U.S. direct investments for the balance of payments deficits. Everyone talks about the $30 billion of American investments in Europe, two-thirds of which are direct and one-third are in portfolio investments, roughly speaking; but it is rarely mentioned that European investments in the United States are about equal—some $29.5 billion—even though more of theirs are in portfolio investment.

"Many people, who should know better, blame American companies for the recent currency crisis. Multinational corporations are in the business of manufacturing and selling products, not gambling with huge cash reserves. They would not be in business long if they speculated with a magnitude of liquid assets which could shake the foundations of the combined central banks of Europe."

Concern Abroad

If the economic effects of multinational corporations are a contentious issue at home, the political effects are an explosive issue abroad. From Ottawa to Montevideo and Paris, "statesmen" have raised questions as to whether the activities of multinational corporations are actually another from of American "economic imperialism." Questions of national control over means of production go to the very heart of the political process, a fact which we may not fully appreciate in this country.

In Europe the concern expressed in the phrase "the American Challenge" ("le defi Americain") may well result in a common industrial policy aimed at curtailing the strength of the American multinationals.

Canada has recently adopted stricter controls over the inflow of equity capital, as well as restricted the the export of oil from American-owned companies to the oil starved mid-west of the United States.

Japan has long controlled foreign investment in their country. They have preferred to borrow the foreign money needed to acquire technology without allowing outside participation in their industry.

Latin America has a growing hostility to foreign investment particularly from the Colossus of the North.

While we may view those corporations as "multinational", foreign countries view them often as an extension of American influence and dominance which they may not consider in their own national interests. The very reasons why these corporations are viewed by their defenders at home as being in the United States interests, are used by their critics abroad as being against foreign national interests.

There are those who claim that multinational corporations are an engine for world peace which break down national barriers and create a world economy based upon entangling interrelationships which will make all countries act not only in consideration of their own national interests but out of concerns for their international interests. Thus, multinational corporations who are champions of free trade may be at least as concerned about actions which could jeopardize their assets abroad as they are about their production in the United States.

Yet, it should be recognized that "multinationals" are not a distinctly American phenomenon. Royal Dutch/Shell, Volkswagenwerk, Philips Electric, British Petroleum, Shell Oil, Imperial Chemical, British Steel, Nippon Steel, Hitachi, Siemens, Farbwerke Hoechst and Daimler Benz are a few of the prominent foreign multinational companies who are competing for a share of the multinational market. These "foreign multinationals" are often government-owned or at least heavily subsidized by their governments.

In the light of all that has been said—the accusations and counter-accusations—wherein lies the truth? There are probably no definitive answers to the many issues raised by multinational corporations. The Tariff Commission has completed an in-depth study of "multinationals." The Commission study revealed many diverse effects of the operations of these companies.

Summary of Tariff Commission Study on Multinational Corporations

Why U.S. Firms Invest Abroad.—The study found that capital moved abroad because of the market growth potential in developed countries or the threat of being denied access to foreign markets through exports. Cost factors according to the study, were secondary except in the case of such industries as consumer electronics, footwear, toy, and apparel, where the search for low-wage labor was a major factor in decisions to invest abroad. Foreign tax incentives and subsidies, combined with impediments to trade were also significant inducements to invest abroad.

Effect on Jobs in the United States.—To measure the impact of foreign investment on domestic employment between 1966 and 1970, the study, using Commerce Department data, made three alternative assumptions of "what would have happened" if multinationals had not taken their capital abroad:

(1) The most "pessimistic" estimate, according to the Commission, assumes that if there were no U.S. plants abroad, foreign countries would not replace the output of those U.S. plants with local production, but would import the entire output from the United States. Under these assumptions, the presence of U.S. plants abroad represents a net *loss* of 1.3 million jobs;

(2) A second estimate assumes that foreign countries would replace half the output of their U.S. plants from their own production and import the remainder from the U.S. Under these circumstances there is a net *loss* of 400,000 U.S. jobs.

(3) A third estimate was based on what the Commission deemed more realistic assumptions than the other two, namely, that in the absence of U.S. MNC's, foreigners would not have substituted their own plants for those of the MNC's but that U.S. exports could reasonably be expected only to have maintained the shares of world exports of manufactures that they held in 1960–61, rather than to have taken completely all the markets served abroad by the MNC's affiliates. Under these assumptions, the net employment effect in manufacturing shows a *gain* of roughly half a million U.S. jobs.

The study notes that the effect of foreign investment on domestic employment varied from industry to industry, with employment being increased in some industries and either unaffected or reduced in others.

Effect on World Trade and Capital Formation.—Multinationals exerted a significant influence on world trade and on capital formation in host countries. In seven countries surveyed—the United Kingdom, France, West Germany, Belgium-Luxembourg, Canada, Mexico, and Brazil—U.S.-based multinationals in 1970 accounted for 13 percent of all capital spending, and 22 percent of the capital spending in the industrial "backbone" sectors—metals, machinery, and transport equipment.

Effect on U.S. Trade.—The Commission found a close association between the U.S. foreign investment and U.S. exports, but a weak association between the level of foreign investment and the degree of penetration by foreign imports. Overall, the Commission found that U.S. multinationals generated $3.4 billion more in new exports than in new imports. Non-MNC firms in manufacturing produced

$3.6 billion more in new imports than in new exports. Again, the study points out the substantial variance in these effects, industry by industry. Of the 24 industries in which comparisons could be made between 1966 and 1970, there were sixteen industries showing net increases in U.S. exports of $7.3 billion, and eight industries showing net decreases in U.S. exports of $3.4 billion.

Balance of Payments Effect.—Multinationals apparently made a major, positive contribution to the current account of the U.S. balance of payments and were not a factor in the deterioration of the basic balance of payments deficit during the late 1960's. The study points out that transactions with Canada and Japan have been the chief factors in the deterioration of the U.S. balance of payments position. Multinationals were a factor in the adverse history of balance of payments with Canada, but not with respect to Japan.

Effect on the International Monetary System.—The Commission's study of the role of multinationals in the international monetary system found that private corporations at the end of 1971 controlled some $268 billion in short-term liquid assets, with the lion's share controlled by multinational firms and banks headquartered in the U.S. Movement of only a small portion of the $268 billion could produce massive monetary crises. The study points to the creative role MNC's have played in the development of the international money market, but also that such firms and banks could, without any destructive or predatory motivations, frustrate a country's monetary policy because of the mobility of short-term capital. Interest rate differentials or rumors of a currency revaluation, for example, could send billions of dollars or other currencies from one country seeking to maintain low interest rates for employment reasons to another—seeking to maintain high interest rates to assuage inflationary pressure.

Technology, R&D, and the Multinational Firm.—Multinational corporations based in the United States dominate the development of new domestic technology, according to the study. Exports of technology outweigh imports by a factor of more than ten to one. The study found that while high technology industries have tended in recent years to put more new direct investment abroad, compared with investment at home, these industries have been prominent generators of high technology exports from the United States but have not been prominent generators of high technology imports to the United States. Between 1966 and 1970, according to the study MNC's in the high technology industries generated some $6.1 billion in net new exports while the non-MNC's in the same industries generated about $2.1 billion in net new imports.

Legal Issues.—The study foresees potential conflicts arising from the extra-territorial application of antitrust laws and other policies. It points out that United States antitrust laws are based on a philosophical premise that a truly competitive economic system is the most efficient and most desirable form of society, but that this view is not necessarily shared by America's trading partners and competitors. The European, Canadian, and Japanese approaches, the study suggests, favor combination and cartelization of domestic enterprises in order to compete effectively with the powerful United States-based multinationals.

Dimensions of Multinational Firms

It is not surprising that the Commission study concluded that technologically-advanced industries showed a large net gain in employment while the less technologically-advanced tended to show no gain or even losses, since the overall trade performance of the United States is heavily dependent on "high technology industries" and the job impact of foreign investment depends heavily on the trade performance of those industries.

It is difficult to generalize about the activities and effects of multinational corporations because they encompass quite a diverse and heterogeneous group of companies. These activities may range from making thimbles in Mexico to exploring for oil off the coast of Nigeria; from wholly-owned U.S. subsidiaries to plants in which the U.S. ownership is only 10 percent; from factories to sales outlets. In a word, "multinationals" are not only different animals according to their diverse operations, but also because of their degree of ownership and control, size, extension, geographic distribution, management philosophies and many other variables.

While these companies are heterogeneous there is no doubt but that they are big. (See table 1 on the following page.)

If General Motors were a nation its "economy" would be the 23rd largest in the world, with Standard Oil (New Jersey) and Ford not far behind.

The "book value" of U.S. investments abroad has increased from $31.9 billion in 1960 to $86 billion in 1971. Table A in the Appendix and the charts below break down U.S. investment abroad by industry and area over the 1960–1971 period. The "book value" measurement is known to understate the real value of U.S. corporate assets abroad. The total asset value of U.S. investment abroad, including short term assets, is estimated at $203 billion with manufacturing accounting for $78 billion and petroleum at $44 billion.

Europe has surpassed Canada as the main area for U.S. investments abroad with U.S.-owned private assets there in excess of $80 billion compared with $43 billion in Canada and $24 billion in Latin America.

The worldwide sales of foreign manufacturing affiliates of U.S. firms exceed $90 billion, almost three times the value of U.S. exports of manufactured products. These sales are over half the total exports of manufactured products from all O.E.C.D. nations. (See Table 2).

TABLE 1.—NATIONS AND CORPORATIONS

One way to show the size of today's large multinational corporations is to compare their gross annual sales with the gross national products of countries. This table uses 1970 figures for all except the centrally planned economies (excluding China) and General Motors Corp., for which 1969 figures are used. The amounts are shown in billions of dollars.

1.	United States	$974.10
2.	Soviet Union	504.70
3.	Japan	197.18
4.	West Germany	186.35
5.	France	147.53
6.	Britain	121.02
7.	Italy	93.19
8.	China	82.50
9.	Canada	80.38
10.	India	52.92
11.	Poland	42.32
12.	East Germany	37.61
13.	Australia	36.10
14.	Brazil	34.60
15.	Mexico	33.18
16.	Sweden	32.58
17.	Spain	32.26
18.	Netherlands	31.25
19.	Czechoslovakia	28.84
20.	Romania	28.01
21.	Belgium	25.70
22.	Argentina	25.42
23.	GENERAL MOTORS	24.30
24.	Switzerland	20.48
25.	Pakistan	17.50
26.	South Africa	16.69
27.	STANDARD OIL (N.J.)	16.55
28.	Denmark	15.57
29.	FORD MOTOR	14.98
30.	Austria	14.31
31.	Yugoslavia	14.02
32.	Indonesia	12.60
33.	Bulgaria	11.82
34.	Norway	11.39
35.	Hungary	11.33
36.	ROYAL DUTCH/SHELL	10.80
37.	Philippines	10.23
38.	Finland	10.20
39.	Iran	10.18
40.	Venezuela	9.58
41.	Greece	9.54
42.	Turkey	9.04
43.	GENERAL ELECTRIC	8.73
44.	South Korea	8.21
45.	IBM	7.50
46.	Chile	7.39
47.	MOBIL OIL	7.26
48.	CHRYSLER	7.00
49.	UNILEVER	6.88
50.	Colombia	6.61
51.	Egypt	6.58
52.	Thailand	6.51
53.	ITT	6.36
54.	TEXACO	6.35
55.	Portugal	6.22
56.	New Zealand	6.08
57.	Peru	5.92
58.	WESTERN ELECTRIC	5.86
59.	Nigeria	5.80
60.	Taiwan	5.46
61.	GULF OIL	5.40
62.	U.S. STEEL	4.81
63.	Cuba	4.80
64.	Israel	4.39
65.	VOLKSWAGENWERK	4.31
66.	WESTINGHOUSE ELEC	4.31
67.	STANDARD OIL (Calif.)	4.19
68.	Algeria	4.18
69.	PHILIPS ELECTRIC	4.16
70.	Ireland	4.10
71.	BRITISH PETROLEUM	4.06
72.	Malaysia	3.84
73.	LING-TEMCO-VOUGHT	3.77
74.	STANDARD OIL (Ind.)	3.73
75.	BOEING	3.68
76.	DUPONT	3.62
77.	Hong Kong	3.62
78.	SHELL OIL	3.59
79.	IMPERIAL CHEMICAL	3.51
80.	BRITISH STEEL	3.50
81.	North Korea	3.50
82.	GENERAL TELEPHONE	3.44
83.	NIPPON STEEL	3.40
84.	Morocco	3.34
85.	HITACHI	3.33
86.	RCA	3.30
87.	GOODYEAR TIRE	3.20
88.	SIEMENS	3.20
89.	South Vietnam	3.20
90.	Libya	3.14
91.	Saudi Arabia	3.14
92.	SWIFT	3.08
93.	FARBWERKE HOECHST	3.03
94.	UNION CARBIDE	3.03
95.	DAIMLER-BENZ	3.02
96.	PROCTOR & GAMBLE	2.98
97.	AUGUST THYSSEN-HUTTE	2.96
98.	BETHLEHEM STEEL	2.94
99.	BASF	2.87

Source: Lester Brown, "The Interdependence of Nations."

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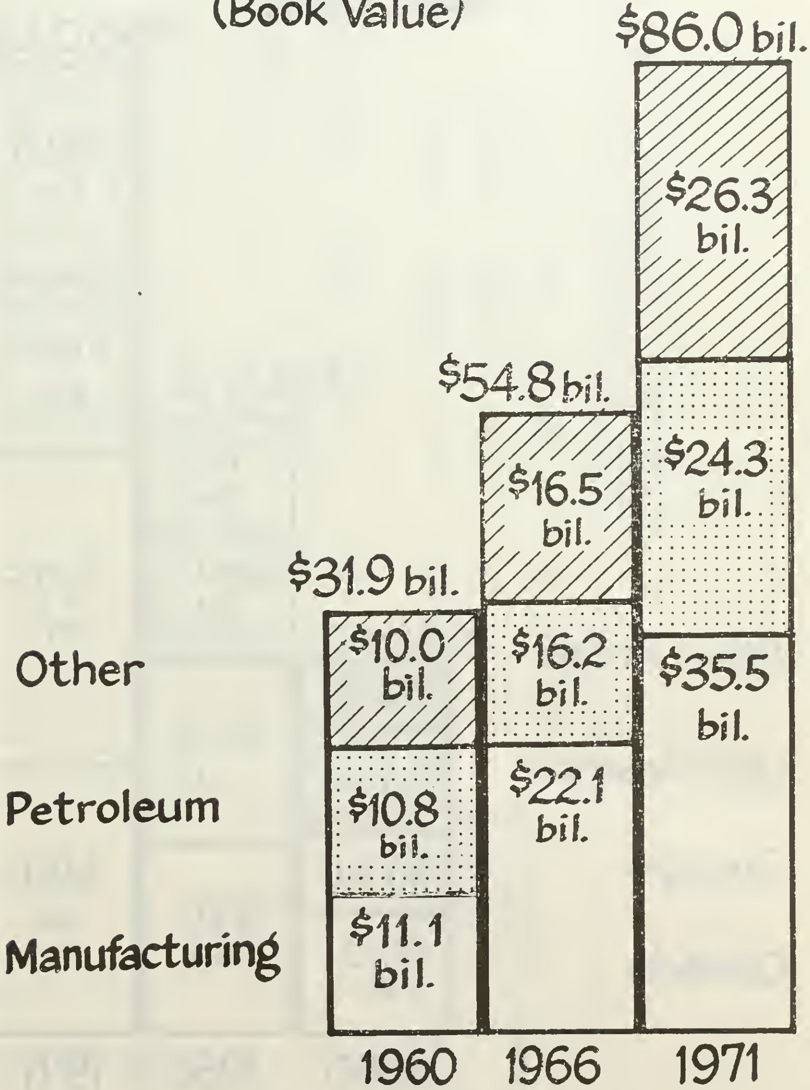
U.S. Direct Investments Abroad by Major Industry

(Book Value)



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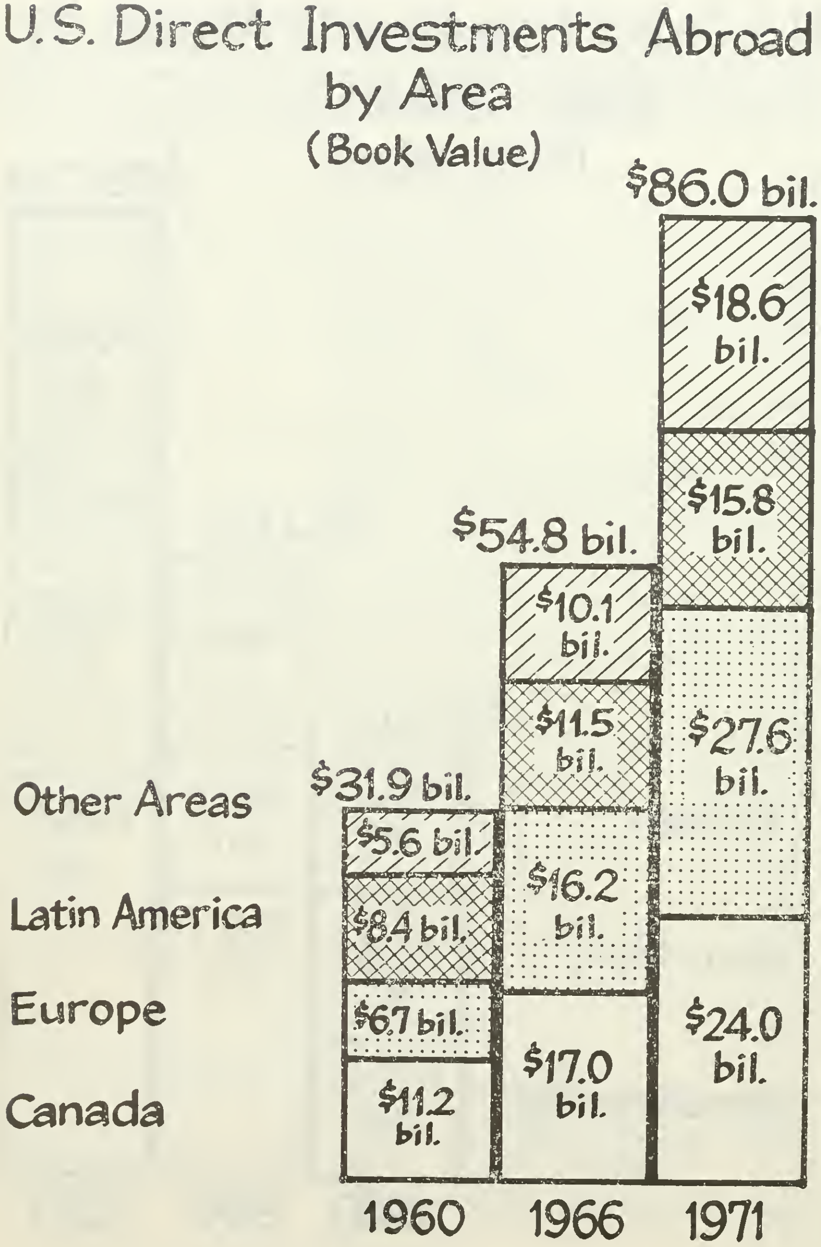

U.S. Direct Investments Abroad by Area (Book Value)

TABLE 2.—COMPARISONS OF SALES OF FOREIGN MANUFACTURING AFFILIATES OF U.S. FIRMS WITH OECD EXPORTS AND U.S. EXPORTS, 1961–70

[In millions of dollars]

	Values					Average annual growth (percent)	
	1961	1963	1966	1968	1970[1]	1961–70	1966–70
Worldwide sales of foreign manufacturing affiliates of U.S. firms	25,061	31,809	53,681	59,676	90,431	15.3	13.9
OECD exports of manufactured goods	(2)	(2)	107,751	120,692	176,209	(2)	13.1
U.S. exports of manufactured goods (FAS)	15,083	16,990	22,406	27,547	34,971	9.8	11.8

[1] Estimated.

[2] Not available.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, International Investment Division; OECD trade statistics; and Trade Relations Council of the U.S., average.

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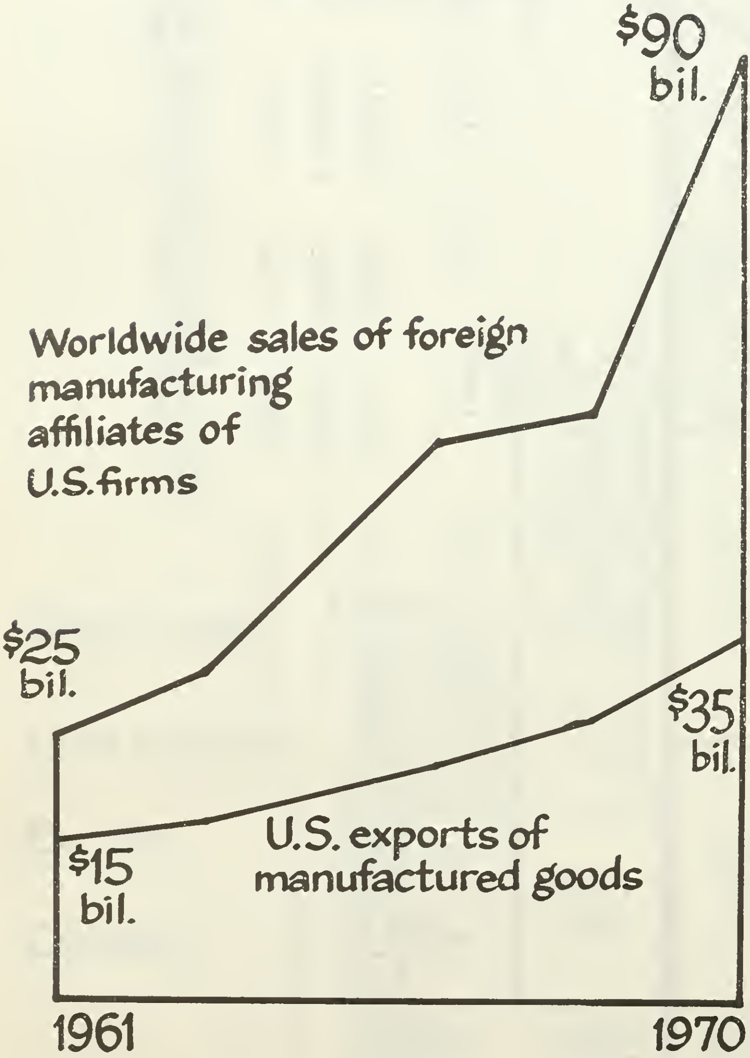
Comparison of U.S. Exports of Manufactured Goods and Sales of Foreign Affiliates of U.S. Firms



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Profits

The profits of multinational corporations are truly diversified. The table below shows the profits of 50 major U.S. companies in 1970 which derived over $400 million or over 40 percent of their total revenues from overseas. The effective devaluation of the dollar (the second devaluation in slightly over one year) will increase the dollar value of foreign earnings.

Only two corporations, Standard Oil of New Jersey and IBM, earned $500 million abroad in 1970. Seven others made over $100 million. Surprisingly, Ford Motor and General Motors did not make more profits abroad than ITT, even though the automotive giants are $900 million to $1.2 billion larger.

Large diversified multinational corporations with earnings spread out all over the globe in various industries are in a better position to avoid large cyclical fluctuations in their earnings because of a recession in any particular country. This indeed has been the case with U.S. multinationals. With a slowdown in the U.S. economy in 1970, overseas profits really buoyed the earnings of many U.S. companies.

One of the issues related to overseas profits is the question of whether the U.S. foreign source income provisions give an incentive to invest abroad rather than at home.

Table 3.—MULTINATIONAL PROFITS, 1970

Company	Net sales (millions)	Estimated foreign sales (millions)	Percent total	Net income (millions)	Percent foreign	Where the profits come from
Standard Oil (New Jersey)	$16,554	$8,277	50	$1,310	52	Worldwide.
Ford Motor	14,980	[1] 3,900	26	516	[1] 24	Germany, Britain, Australia.
General Motors	18,752	[1] 3,563	19	609	[1] 19	Worldwide.
Mobil Oil	7,261	3,267	45	483	51	Canada, Middle East.
International Business Machines	7,504	2,933	39	1,018	50	Worldwide.
International Telephone & Telegraph	6,365	[1] 2,673	42	353	[1] 35	Canada, Europe, Latin America.
Texaco	6,350	2,540	40	822	([2])	Worldwide.
Gulf Oil	5,396	2,428	45	550	[3] 21	Middle East, South America, Canada.
Standard Oil of California	4,188	1,885	45	455	[3] 46	Middle East, Indonesia, South America.
Chrysler	7,000	[1] 1,700	24	[4] 7.6	([2])	Worldwide.
General Electric	8,727	1,393	16	329	20	South America, Canada, Italy.
Caterpillar Tractor	2,128	1,118	53	144	([2])	Export sales, Worldwide.
Occidental Petroleum	2,402	[1] 1,105	46	175	([2])	Middle East, South America, Africa.
F. W. Woolworth	2,528	[5] 1,001	35	77	61	Canada, Germany, Britian.
Eastman Kodak	2,785	874	31	404	19	Worldwide.
Union Carbide	3,026	870	29	157	([2])	Do.
Procter & Gamble	3,178	795	25	238	25	Britain, Europe, Latin America.
Singer	2,125	775	37	75	([2])	Europe, Latin America.
Dow Chemical	1,911	771	40	103	[6] 45	Worldwide.
CPC International	1,376	692	50	61	51	Do.
International Harvester	2,712	680	25	52	([2])	Canada, Europe, Africa.
Firestone Tire & Rubber	2,335	677	29	93	39	Worldwide.
Colgate-Palmolive	1,210	670	55	40	([2])	Do.
Honeywell	1,921	622	35	58	([2])	Europe, British Commonwealth.
National Cash Register	1,421	643	45	30	[6] 51	Worldwide.

E. I. du Pont	3,618	634	18	329	(2)	Export sales, Europe.
W. R. Grace	1,938	633	33	30	[1][6]39	Latin America.
Minnesota Mining & Manufacturing	1,687	605	36	188	(2)	Europe, Canada, Australia.
First National City Corp	1,704	600	35	139	40	Worldwide.
Englehard Minerals & Chemical	1,474	589	40	36	(2)	Britain, Europe, Japan.
Sperry Rand	1,739	589	34	72	(2)	Europe, Japan.
Xerox	1,719	518	30	188	38	Britain, Canada, Latin America.
American Standard	1,418	511	36	13	33	Europe.
Coca-Cola	1,606	498	31	147	(2)	Worldwide.
Swift	3,076	492	16	29	(2)	Canada, Britain, Germany.
General Foods	2,282	479	21	119	(2)	Canada.
American Smelting & Refining	718	467	65	89	[7]55	Australia, Peru, Mexico.
Monsanto	1,972	467	24	67	31	Canada, Latin America, Europe.
Warner-Lambert	1,257	453	36	98	(2)	Worldwide.
General Telephone & Electronics	3,439	441	13	236	7	Canada, Europe, Latin America.
H. J. Heinz	990	433	44	38	44	Worldwide.
Uniroyal	1,556	420	27	24	75	Canada, Mexico.
Pfizer	870	412	47	81	55	Britain, Europe, Latin America.
Litton Industries	2,404	409	17	69	(2)	Europe, Latin America.
Schlumberger	579	341	59	49	(2)	France, Canada.
Otis Elevator	[3]601	301	50	24	35	Worldwide.
Gillete	673	289	43	66	50	Do.
USM	440	203	46	10	98	British Commonwealth, Europe, Latin America.
Chesebrough-Pond's	261	111	43	21	40	Europe, Canada, Latin America.
Black & Decker	255	107	42	20	50	Export sales.

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[1] Excludes Canada.
[2] Not available.
[3] Contracts completed.
[4] Deficit.
[5] Percent based on consolidated sales and equity in unconsolidated subsidiary.
[6] Percent based on operating income.
[7] Percent based on earnings before taxes and extraordinary items.

Note: All oil company figures exclude excise taxes.

The Tax Issues

There are, to be sure, incentives in the United States Internal Revenue Code to encourage investment abroad. During the nineteen fifties private investment abroad was encouraged by the United States Government as an adjunct to our foreign aid program. We extolled the virtues of the "free enterprise system" and wanted to export that philosophy to other nations. We encouraged the transfer of technology through our technical assistance and foreign aid programs to the extent that we increased plant capacity abroad in the very areas which were later to provide us with concentrated import competition.

The Foreign Tax Credit

Our tax laws provide that foreign subsidiaries of United States corporations may credit their foreign taxes paid against the income tax liability of the parent corporations on foreign source income. This was considered necessary to avoid "double taxation" that is, taxation by the host country and taxation by the United States Government on the same income. The multinational corporations will argue that foreign governments provide not only tax neutrality with regard to their own multinational corporations but will actually give them outright subsidies and tax forgiveness. They will also point out that if they are denied the ability to compete abroad through the establishment of plants, foreign corporations will fill the breech and will export their products back to the United States; thus, our labor situation will not be improved and our balance of payments will be made much worse.

On the other hand, however, critics will point out that the foreign tax credit not only serves to encourage (or at least not discourage) American corporations from setting up their factories abroad, but it will also tend to erode the United States tax base. This is because foreign governments preempt the substantial portion of the income of these companies and thereby reduce the tax liabilities of their parent corporations to the United States Treasury. They may suggest that it was the foreign tax credit not the depletion allowance or any of the other so-called tax preferences, which was responsible for the fact that several large United States corporations paid little or no domestic income tax in some recent years. Furthermore, there is the question of whether the parent company can juggle the books, so to speak, so as to arrange their world-wide income distribution to minimize the United States tax liability.

The credit for income taxes paid abroad dates from 1918; it was designed to eliminate double taxation of income. Prior to that time a deduction from gross income had been allowed for foreign income taxes.

Prior to 1921, only American corporations with foreign branches were entitled to the foreign tax credit. In 1921, Congress extended the foreign tax credit to a domestic corporation which owned a majority of voting stock in a foreign subsidiary. In general, the credit continued unchanged until 1942 when Congress expanded it to allow domestic corporations a credit for taxes paid by a wholly owned foreign subsidiary of the majority owned foreign subsidiary. In 1951, Congress further liberalized this provision by allowing the tax credit to a domestic corporation which owns at least 10 percent of the voting stock of a foreign subsidiary from which it receives dividends.

It also provided that such a 10 percent owned corporation which owns 50 percent or more voting stock in another foreign corporation, from which it receives dividends, shall be regarded as having paid a portion of the taxes paid by the other foreign corporation in any foreign country.

In 1921, the limitation was based on the foreign tax payments which could be allowed as a credit against United States tax. This was the "overall" limitation which restricted the credit so that it would not exceed the same proportion of the total U.S. tax, as the income from foreign sources bears to the total income of the taxpayer. This limitation was imposed to prevent the U.S. tax on domestic income from being reduced by foreign rates which are higher than U.S. rates.

In 1932, the Congress added a "per country" limitation, which specifies that, with respect to taxes paid to each country, the credit should not exceed the proportion of the U.S. tax which the taxpayer's income from within such country bears to his entire net income. This limitation was written in to eliminate a tax benefit received by some taxpayers deriving income in more than one country as compared with the taxpayers operating in only one country. Both of these limitations were in effect until the 1954 Code eliminated the overall limitation.

Table 4 shows that the taxable income on foreign earnings of U.S.-owned corporations was $11 billion in 1970. Taxes paid to foreign governments on that income is estimated at $5.7 billion, or 51.8 percent. After crediting those foreign taxes with a $4.6 billion foreign tax credit, the U.S. Government received only $640 million on the $11 billion in taxable income or 6 percent.

TABLE 4.—DATA ON U.S. CORPORATIONS WITH TAXABLE INCOME FROM FOREIGN SOURCES: ALL INDUSTRIES, MANUFACTURING, AND MINING

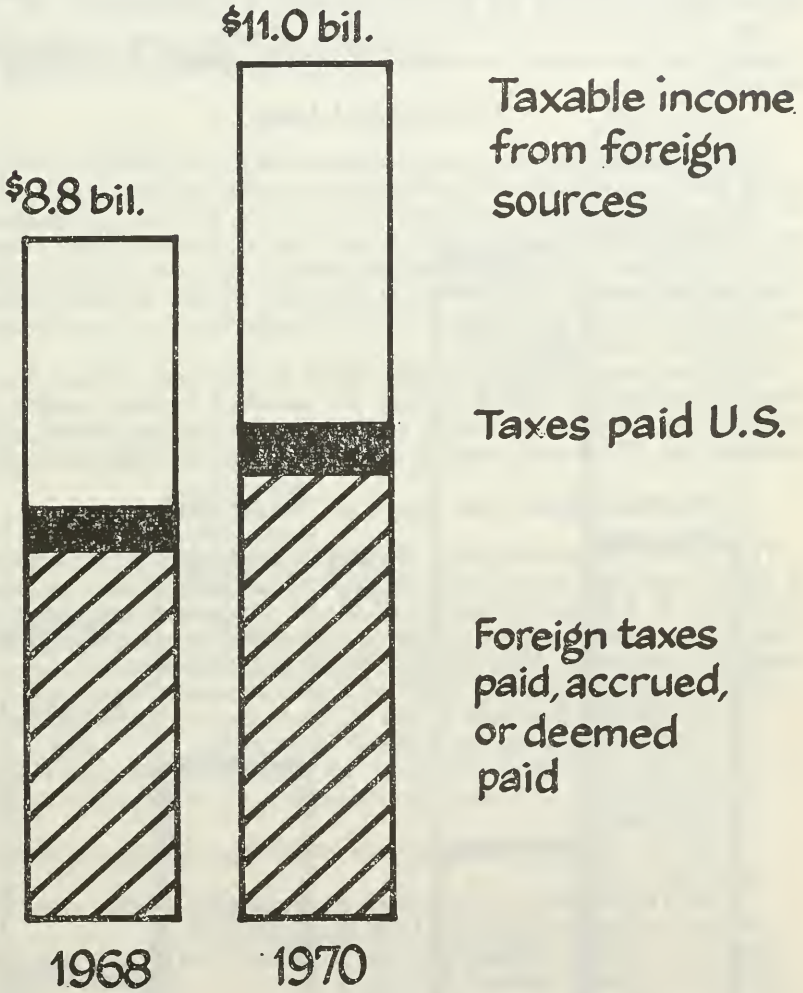
[In millions of dollars]

	All industries		Manufacturing [1]		Mining [2]	
	1968	1970	1968	1970	1968	1970
Taxable income from foreign sources	8,760	[3] 11,000	6,096	[3] 7,700	1,262	[3] 1,085
Foreign taxes paid, accrued, or deemed paid	4,525	[3] 5,680	3,198	[3] 4,040	845	[3] 725
Foreign tax credit claimed	3,656	4,640	2,603	3,398	642	701
Taxes paid to U.S. Government on foreign source income	[3] 550	[3] 640	[3] 325	[3] 300	none	none

[1] Includes petroleum refining.
[2] Includes crude petroleum.
[3] Estimated.

Source: Actual data from an unpublished IRS tabulation for 1968 tax year. Estimates provided by Joint Committee on Internal Revenue Taxation.

Taxable Income from Foreign Sources and Taxes Paid



If the credit is eliminated, companies argue, the U.S. would receive considerably more, but the effective tax rate on these corporations would increase to the 70–75 percent range, which could make them uncompetitive in foreign markets.

On the other hand, if foreign investment erodes, over time, the industrial base in the United States, it also erodes our tax base and ultimately our high standard of living. Then it might reasonably be asked "Who is going to pay for the cost of government?"—the needs of our cities, social insurance programs, our defense posture *et al.*? Wage and salaried individuals are already heavily taxed. Without a strong manufacturing sector they would not have the income to pay for the existing government services, no less new programs. That is a fundamental issue that underlies some of the provisions in the Hartke-Burke bill.

One might also ask if the collection of only about 6 percent of foreign taxable income is worth all the complexity of "Subpart F" of the Code?

The Deferral Issue

Another related tax issue is the deferral aspect of foreign-source income. Under our tax laws, a subsidiary abroad may defer the payment of United States taxes until such time as the income is repatriated back to the United States. They do not pay as United States citizens who earn a salary or wage must pay their taxes—on a current basis. This deferral aspect, is in effect, an interest-free loan to United States subsidiaries abroad which again can be manipulated to the advantage of the parent company.

Are these incentives in the Tax Code in the best United States-national interest? If not, can they be modified without raising the issue of double taxation which ending the foreign tax credit would certainly do. These are questions that the Congress will have to face.

Multinationals and the U.S. Trade Performance

The United States sustained the largest trade deficit in its history in 1972. Measured on an f.o.b., balance of payments basis, the trade deficit was $6.9 billion; measured on a c.i.f. (and excluding foreign aid exports) the deficit was $14.5 billion, an amount larger than our total balance of payments deficit on any basis of measurement.

The 1972 deficits are said to be attributable mainly to:

(1) The rapid growth in the U.S. economy in 1972, giving rise to a large increase in the demand for imports;

(2) The "perverse" effects of the dollar devaluation in December 1971 which increased the value, but not always the volume, of U.S. imports;

(3) The growing value of raw materials imports particularly petroleum, and

(4) The failure of our trading partners to provide meaningful access to their markets for U.S. products.

There are always explanations for a disaster and clearly 1972 was a disaster for the U.S. trade position.

The Tariff Commission study, based upon Commerce Department data, concluded that U.S.-based multinationals were a positive factor in our trade account and were not responsible for the deterioration in the balance of trade between 1966 and 1970, years in which data on MNC's are available.

Manufactured exports related to multinational corporations increased from $13.7 billion in 1966 to $21.7 billion in 1970, and account for about 62 percent of total U.S. exports. (See table 5). Imports of manufactures from U.S. MNC's rose from $6.1 billion in 1966 to $10.7 billion in 1970, accounting for 35 percent of U.S. imports of manufacturers.

Multinational Corporations Account for a Greater Proportion of Manufactured Exports than Imports

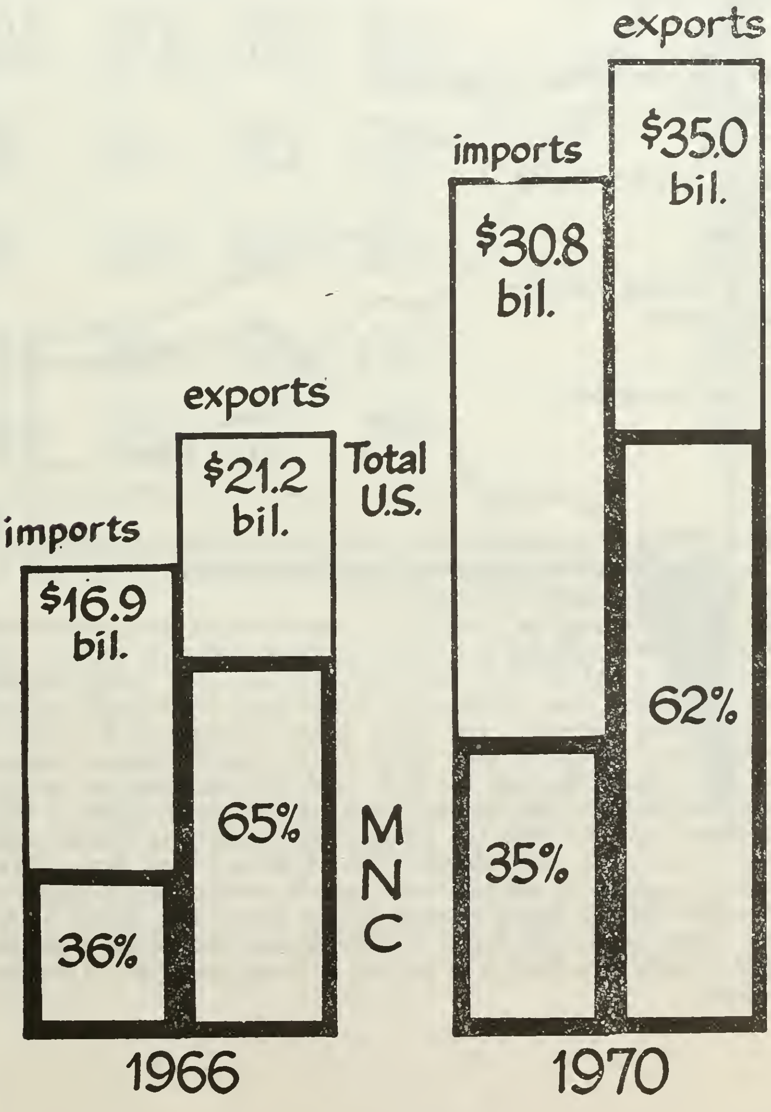


TABLE 5.—MNC-RELATED U.S. TRADE IN MANUFACTURING COMPARED WITH TOTAL U.S. TRADE, 1966 AND 1970

[Amounts in millions of dollars]

	U.S. exports		U.S. imports	
	Total	MNC-related	Total	MNC-related
All manufacturing:				
1966	21,227	13,692	16,893	6,073
1970	34,969	21,718	30,795	10,702
Chemicals and allied products:				
1966	2,677	1,956	957	640
1970	4,012	2,342	1,256	807
Primary and fabricated metals:				
1966	1,781	1,142	3,267	372
1970	3,749	2,237	4,715	513
Machinery and transport equipment:				
1966	11,162	7,839	4,828	2,256
1970	17,463	12,605	12,089	5,414
All other industries:				
1966	5,607	2,755	7,841	2,805
1970	9,745	4,534	12,735	3,968

Examination of these data may lead to the conclusion that all is well in trade in manufactures—we have an apparent surplus and the MNC's are responsible for it. Not so!

The U.S. competitive position in manufactures has deteriorated rapidly in recent years as the following table indicates. Import data for the United States have been adjusted to a c.i.f. basis (roughly 10 percent higher than fob data) to make them comparable to data of our trading partners. The table below showing U.S. trade in manufacturers compared with that of our major trading partners is revealing: it shows that the U.S. trade in manufactures deteriorated from a surplus of $5 billion in 1960 to a deficit of $7 billion in 1972. Even more dramatic were the tremendous increases in the surpluses of two of our main competitors—West Germany and Japan. West Germany's surplus in manufactured goods reached $16.4 billion in 1972, while that of Japan climbed to the astounding figure of $19 billion. Thus, while U.S.-based multinationals may show a positive balance of trade, the Nation as a whole is losing markets to Germany and Japan.

Balance of Trade in Manufactures

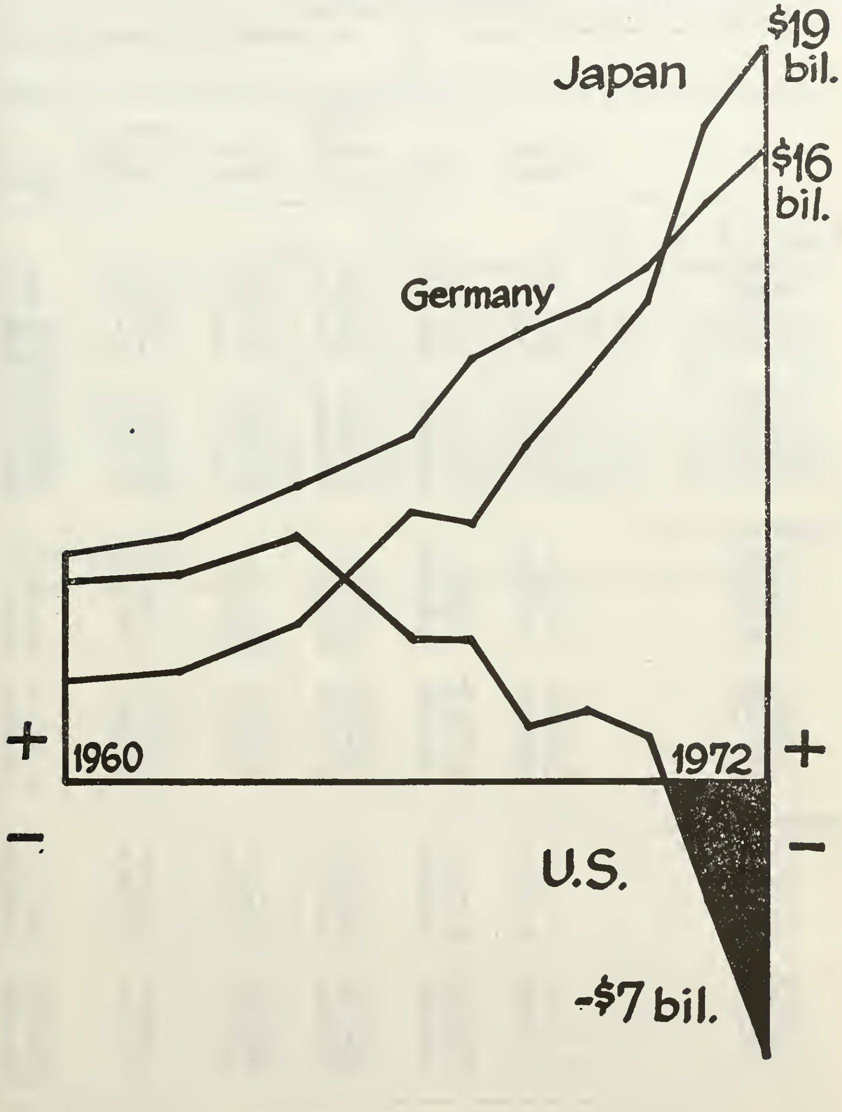


TABLE 6.—TRADE IN MANUFACTURES 1960–72

[In billions of dollars]

	United States	EEC		Germany	United Kingdom	Japan
		Total	Excluding Intra-EEC			
Exports, f.o.b:						
1960	12.7	23.1	16.1	10.1	8.4	3.6
1966	19.5	42.0	24.6	18.0	12.3	9.1
1967	21.2	44.9	26.6	19.5	12.1	9.8
1968	24.1	51.6	29.9	22.3	13.0	12.2
1969	27.1	61.2	33.6	26.2	15.0	15.0
1970	29.7	71.6	38.6	30.7	16.3	18.1
1971	30.8	79.5	43.4	35.0	19.0	22.6
1972 [1]	33.4	87.5	46.8	39.6	20.0	25.7
Imports, c.i.f.:						
1960	7.5	13.6	6.6	4.2	4.0	1.0
1966	15.8	28.8	11.6	9.0	6.9	2.1
1967	17.4	29.6	11.7	8.5	7.8	3.1
1968	22.7	34.9	13.6	10.6	9.1	3.5
1969	25.3	44.6	17.2	13.9	9.9	4.4
1970	28.5	53.4	20.7	17.4	11.0	5.6
1971	33.8	57.4	21.8	20.0	12.7	5.5
1972 [1]	40.5	63.1	23.3	23.2	14.8	6.7
Trade balance:						
1960	5.2	9.5	9.5	5.9	4.4	2.6
1966	3.7	13.2	13.0	9.0	5.4	7.0
1967	3.7	15.3	14.9	11.0	4.3	6.7
1968	1.4	16.7	16.3	11.7	3.9	8.7
1969	1.8	16.6	16.4	12.3	5.1	10.6
1970	1.2	18.2	17.9	13.3	5.3	12.5
1971	–3.0	22.1	21.6	15.0	6.3	17.1
1972 [1]	–7.1	24.4	23.5	16.4	5.2	19.0

[1] January–September at annual rate.

Source: U.S. Department of Commerce, "International Economic Indicators," December 1972, p. 14.

In the United States, exports account for between 11–14 percent of production of goods while in the Federal Republic of Germany the ratio is about 38 percent, in France 24–30 percent, the U.K. 45–48 percent, Japan about 30 percent, and Canada 67 percent as the table below indicates:

TABLE 7.—COMPARATIVE RATIOS OF EXPORTS TO PRODUCTION OF GOODS

	United States	Federal Republic of Germany	France	United Kingdom	Japan	Canada
1960	11.1	31.3	23.4	38.5	24.9	45.1
1966	11.4	34.7	23.7	40.6	30.1	54.5
1967	11.7	38.0	23.2	39.1	26.3	60.0
1968	11.9	39.7	24.4	44.9	27.7	66.0
1969	12.4	38.6	26.0	48.5	30.1	66.8
1970	14.2	37.9	29.7	48.5	31.1	[1]

[1] Not available.

Source: U.S. Department of Commerce "International Economic Indicators".

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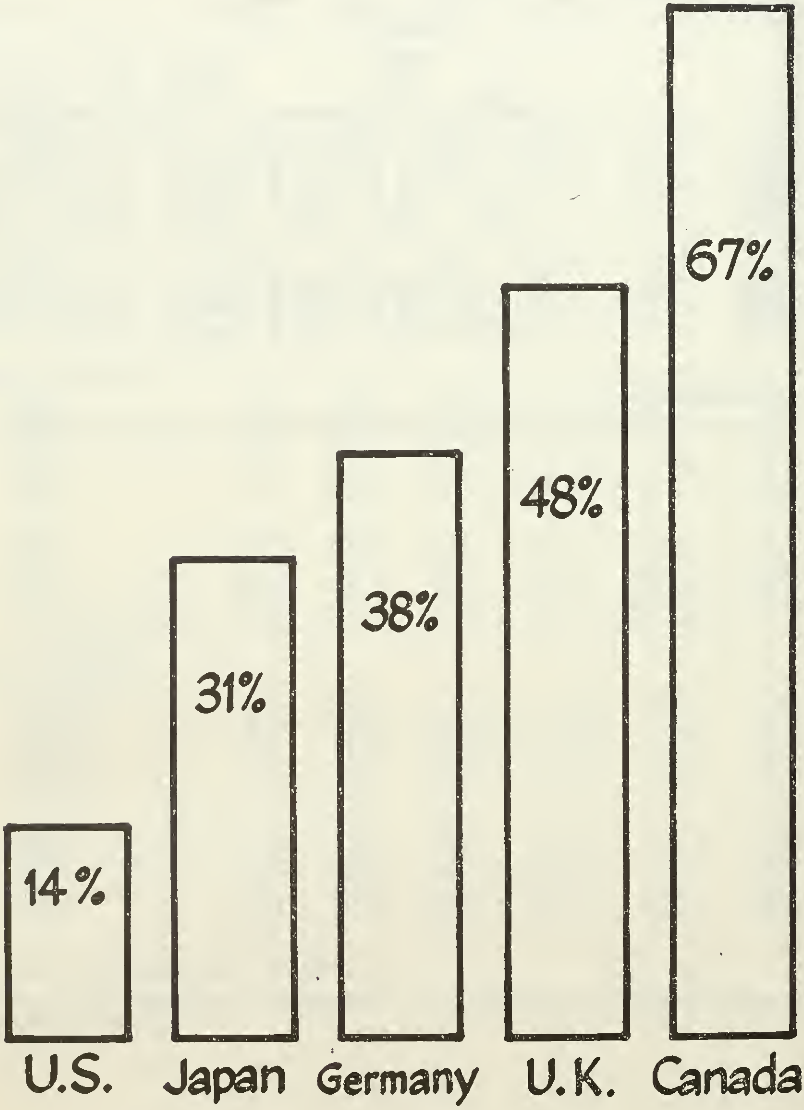
Exports as a Percentage of Total Production of Goods



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Employment in Manufacturing

It is said that the United States is becoming more and more a "service" economy. The table below bears that out. Manufacturing employment in the United States has not increased significantly over the postwar period, while employment in "wholesale and retail" trade, and "services" has, as well as "State and local" government employment. As our labor force (wage and salary workers) increased steadily from 40.4 persons in 1945 to 72.8 million in 1972, employment in manufacturing increased from 15.5 million to only 18.9 million over this period.

Does this suggest that the United States is entering a post-industrial era in which manufacturing industries in the United States will not be able to absorb the 20 million new entrants expected in the labor force by 1980?

Can a nation remain in a leadership position in the world without a strong industrial base?

With the anticipated huge increases in petroleum imports, estimated to cost $20–25 billion by 1980, how can the United States expect to balance its international accounts when it is losing competitiveness in manufactured exports?

Nonagricultural Employment in the U.S.

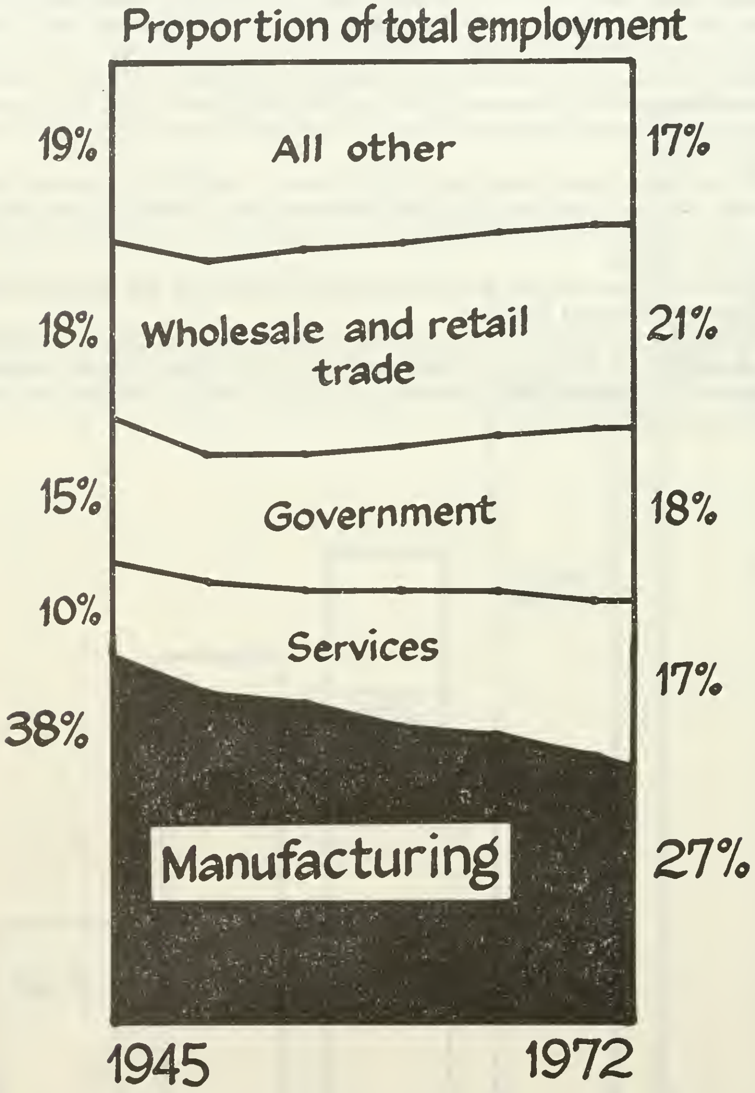

TABLE 8.—EMPLOYMENT IN THE UNITED STATES IN NONAGRICULTURAL ESTABLISHMENTS DURING THE POSTWAR ERA 1945–72

[In millions of persons]

	Total wage and salary workers	Manufacturing		Mining	Construction	Transport public utilities	Wholesale and retail trade	Finance, insurance, and real estate	Services	Government	
		Total	Percent of total employment							Federal	State and local
1945	40.4	15.5	38	0.8	1.1	3.9	7.3	1.5	4.2	2.8	3.1
1950	45.2	15.2	34	.9	2.3	4.0	9.4	1.9	5.3	1.9	4.1
1955	50.7	16.9	33	.8	2.8	4.1	10.5	2.3	6.3	2.2	4.7
1960	54.2	16.8	31	.7	2.9	4.0	11.4	2.7	7.4	2.3	6.1
1965	60.8	18.1	30	.6	3.2	4.0	12.7	3.0	9.1	2.4	7.7
1970	70.6	19.4	27	.6	3.4	4.5	14.9	3.7	11.6	2.7	9.8
1972	72.8	18.9	27	.6	3.5	4.5	15.7	3.9	12.3	2.6	10.6

Source: "Economic Report of the President", January 1973, p. 227.

Multinational Corporations and the Dollar Crisis

The United States has just experienced the second massive run on the dollar in the past 18 months.

The underlying causes of these all too frequent episodes is the persistent deficit in the U.S. balance of payments which, cumulatively, over the period 1950–1972 totals over $88.6 billion. The basic causes of U.S. payments deficits are not U.S. foreign investment, as will be explained later, but more fundamental forces in the world economy and the assumption by the U.S. government of massive political, military, and economic aid responsibilities around the globe.

Clearly, however, whatever the fundamental causes, there is a glut of American dollars in Europe and Japan. The speculators are capable of not only frustrating a nation's monetary policy but also of literally forcing a devaluation or re-valuation on countries. Perhaps there is a positive aspect to this as the speculators end up forcing governments to do what they should have done but for questions of national esteem and political stake resist doing.

Nevertheless, the huge dollar holdings of American corporations, and overseas branches of American banks can trigger off massive monetary crises. Short term assets of foreign affiliates of U.S. corporations totaled $110 billion in 1971, while foreign banks and foreign branches of U.S. banks held another $114 billion in short term assets. The Tariff Commission study estimates the amount of short-term funds that may have been capable of flowing across national boundaries, generating international monetary crises as $162 billion in 1969, $212 billion in 1970 and $268 billion in 1971. (See Table 9).

TABLE 9.—ESTIMATED SHORT-TERM ASSET AND LIABILITY POSITIONS OF PRINCIPAL INSTITUTIONS IN INTERNATIONAL MONEY MARKETS, 1971

[Billions of U.S. dollars]

	Assets	Liabilities
U.S. banks	13.0	16.0
U.S. nonbanks	5.2	2.6
Foreign banks	52.7	46.5
Foreign governments, central banks, and international organizations	18.7	([1])
Foreign nonbanks	6.8	11.4
Foreign affiliates of U.S. corporations	110.0	63.0
Foreign branches of U.S. banks	61.4	61.5
Total	267.8	201.0

[1] Not available.

Source: Tariff Commission, "Implications of Multinational Corporations for World Trade and Investment and for U.S. Trade and Labor," p. 537.

Short-term Assets in International Money Markets, 1971

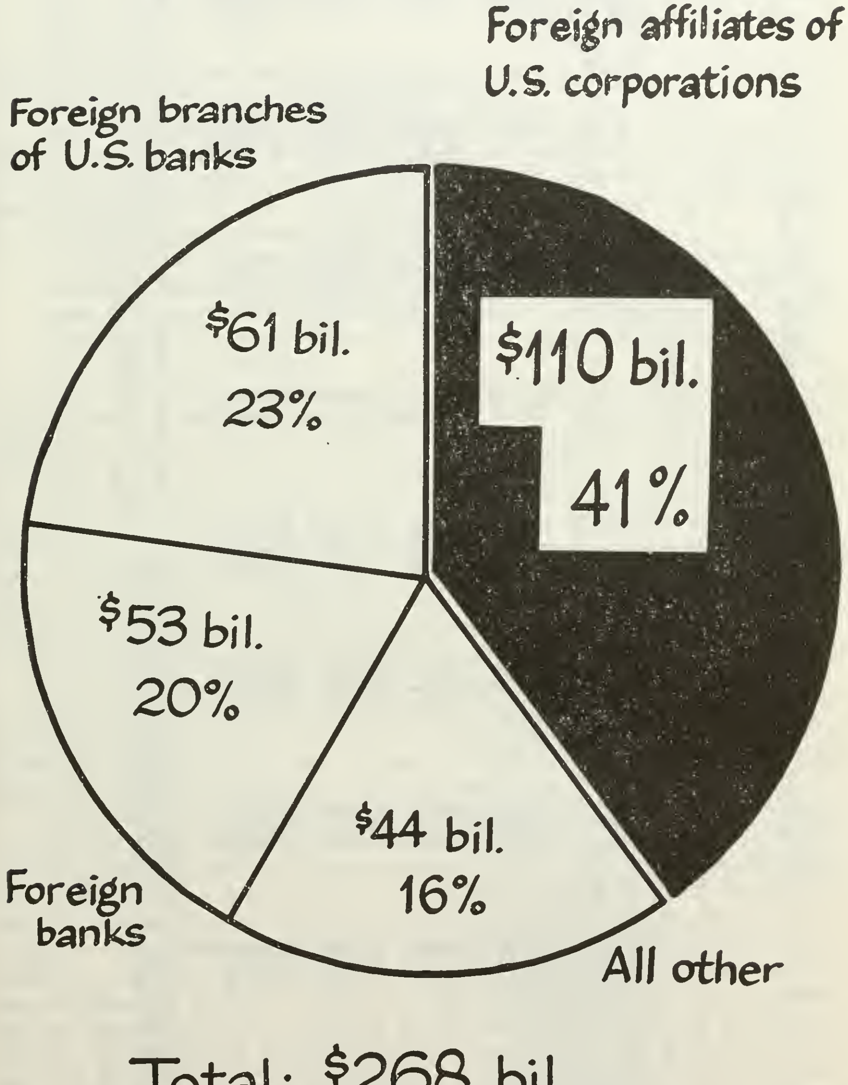

TABLE 10.—U.S. TRADE AND BALANCE-OF-PAYMENTS DEFICITS 1960–72

[In billions of dollars]

	U.S. trade position				Trade balance		Balance of payments		
	Exports (X)		Imports (M)						
	Total	Minus foreign aid	F.o.b.	C.i.f.[1]	F.o.b.	C.i.f. (M) Excluding foreign aid(X)	Liquidity[4]	Official settlements	Basic balance
1960	19.6	18.0	14.7	16.2	4.9	1.8	−3.7	−3.4	[2]−0.8
1961	20.2	18.5	14.5	16.0	5.7	2.5	−2.3	−1.3	
1962	21.0	18.9	16.2	18.0	4.8	.9	−2.9	−2.7	
1963	22.4	19.8	17.0	18.6	5.4	1.2	−2.7	−1.9	
1964	25.7	22.9	18.6	20.6	7.1	2.3	−2.7	−1.5	
1965	26.7	24.1	21.5	23.5	5.2	.6	−2.5	−1.3	
1966	29.3	26.7	25.5	28.1	3.8	−1.4	−2.2	.2	−1.7
1967	30.6	28.1	26.8	29.5	3.8	−1.4	−4.7	3.4	−3.3
1968	33.6	30.1	33.0	36.0	.6	−5.9	−1.6	−1.6	−1.4
1969	36.4	35.2	35.8	39.4	.6	−4.2	−6.1	2.7	−3.0
1970	42.0	40.8	39.8	43.8	2.1	−3.0	−3.9	−10.7	−3.1
1971	42.8	40.8	45.5	50.1	−2.7	−9.3	−22.0	−30.5	−9.3
1972	48.7	46.7	55.6	61.2	−6.9	−14.5	[3]−13.1	−10.1	[3]−10.2

[1] C.i.f. imports are assumed to be roughly equivalent to 110 percent of f.o.b. imports, in accordance with a Tariff Commission study. The actual c.i.f. import values will be published monthly beginning in July 1973.

[2] Average.

[3] January–September 1972.

[4] The liquidity deficit for 1966–1972 excludes SDR allocations.

Source: U.S. Department of Commerce, "Survey of Current Business" December 1972 and earlier issues.

The Tariff Commission study points out:

> "This $268 billion, all managed by private persons in a private market which is virtually uncontrolled by any sort of official institution, amounts to more than twice the total of all international reserves held in central banks and international monetary institutions in the world at the same date. These are reserves with which central banks fight to defend their exchange rates. *The resources of the private sector outclass them.*" (Emphasis supplied)

This report was written before the latest dollar crisis. Yet, it speaks with admirable clarity on the current events.

There is no doubt that the international monetary system rests on shaky foundations. It would be unfair to attribute the underlying cause of the all too frequent monetary crisis either to the "gnomes of Zurich," or to the greed of international corporate money managers. As the Tariff Commission study indicates:

> "While it is not appropriate to conclude that speculative behavior characterizes the international financial activities of the great majority of MNC's, it is appropriate to stress that they have been a primary creative force in the growth of international money and capital markets."

The Eurocurrency market, with its large privately held dollar and other currency holdings has contributed to the growth of trade and investment, particularly in Europe. But the existence of large pools of dollars all over the world overshadows the ability of central banks to maintain fixed exchange rates. One of the questions which the monetary authorities will have to face is that: "given the mobility of enormous private holdings of convertible currencies, should exchange rates be forced to change under crisis circumstances, or should they (i.e., the monetary authorities) adopt objective, internationally-agreed-upon criteria to facilitate periodic changes in currency values to reflect changed economic circumstances?"

The underlying causes of the recurrent international monetary crisis are the chronic deficits in the U. S. balance of payments, which have flooded the world with unwanted dollars, and the inadequate international monetary and trading rules which do not facilitate adjustment of nation's deficits and surpluses.

The causes of the persistent U.S. balance of payments deficit are not simple: they go deep to the heart of the changed economic relationships in the postwar period which are due, in large measure, to the political and military role assumed by the United States to protect the freedom of others, while the countries we protected concentrated on developing highly technologically advanced and competitive economic structures, which they protected from outside competition in various ways. Foreign investment by U.S. corporations cannot be fairly blamed as the basic cause of our persistent balance of payments deficits. Indeed, the income on foreign investment is growing at a healthy pace, and together with royalty and fee income, exceed direct investment capital outflows by $4.5 billion, as the table and chart following indicate.

Financial Flows Related to Direct Investment, 1971

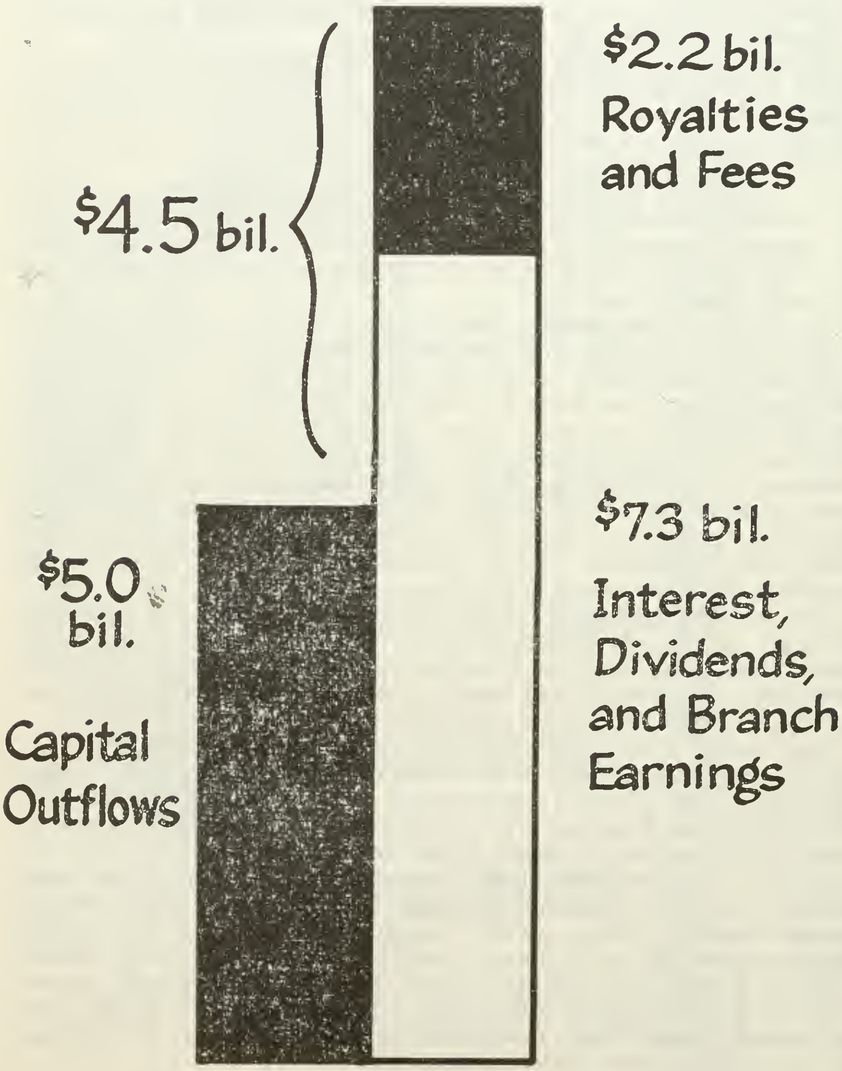

TABLE II.—SUMMARY OF FINANCIAL FLOWS RELATED TO DIRECT INVESTORS, 1964, 1970, 1971

[In millions of dollars]

	1964	1970	1971[1]
Direct Investment Capital Outflows (total)	2,328	4,400	4,965
Manufacturing	1,034	1,295	1,468
Other	1,294	3,105	3,297
Interest, dividends, and branch earnings (net) (total)	3,674	6,001	7,286
Manufacturing	893	1,859	1,941
Other	2,781	4,142	5,345
Royalties and fees (net) (total)	1,013	1,919	2,169
Manufacturing	479	1,002	1,116
Other	534	917	1,053

[1] Preliminary.

Source: U.S. Department of Commerce, *Survey of Current Business*, November 1972.

From 1948 to 1970, Congress has appropriated over $150 billion for what is traditionally defined as foreign assistance. The Senate Appropriations Committee Report on "Foreign Assistance and Related Program Appropriations Bill, 1973" states that: "We know that these figures (i.e., the $150 billion) represent only a fraction of total resource transfers and can estimate that the true cost of this unprecedented effort has been at least $100 billion more than has been reflected in appropriations for new obligational authority."

The table shown below taken from the Senate Appropriations Committee report notes that the total transfer of U.S. resources to foreign nations is *$8.7 billion, $9.7 billion and $10.1 billion*, respectively, for fiscal years 1971, 1972, and 1973. (If the Export-Import Bank's lending program were included, those totals would become $11.6 billion, $17.0 billion and $17.5 billion.)

TABLE 12—TRANSFER OF U.S. RESOURCES TO FOREIGN NATIONS

	Fiscal year—		
	1971	1972	1973
Security assistance	+5,705,380,000	+6,236,805,000	+5,932,976,000
Development and humanitarian assistance	3,017,073,000	3,479,462,000	4,191,265,000
Grand total, foreign assistance	8,722,453,000	9,716,267,000	10,124,241,000
Export-Import Bank	2,880,800,000	7,331,800,000	7,331,800,000
Total (including Export-Import Bank)	11,603,253,000	17,048,067,000	17,456,041,000

In addition to our foreign assistance programs, the United States currently pays about 70 percent of the cost of defending the "Free World." To be sure, we benefit from our security shield, but it relieves other nations from costly expenditures which they would otherwise have to assume.

TABLE 13.—DEFENSE COSTS AND DEVELOPMENT ASSISTANCE

Country	Defense costs (1970)		Developmental assistance (1970)	
	(Millions of dollars)	Percent of GNP[1]	(Millions of dollars)	Percent of GNP[2]
United States	77,827	8.0	3,050	0.31
Portugal	[3] 400	6.3	28	.45
United Kingdom	5,767	4.9	447	.37
France	[3] 5,900	4.0	951	.65
Sweden	1,129	3.6	117	.37
Netherlands	1,096	3.5	196	.63
Australia	1,127	3.4	203	.59
Norway	[3] 375	3.4	37	.33
West Germany	6,103	3.3	599	.32
Belgium	695	2.8	120	.48
Italy	2,499	2.7	147	.16
Canada	1,906	2.4	346	.43
Denmark	368	2.3	59	.38
Switzerland	413	2.0	39	.14
Austria	[3] 165	1.2	19	.13
Japan	1,582	.8	458	.23

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[1] Source: Economic Data Book for Countries of Europe, Statistics and Report Division, Agency for International Development, September 1971.

[2] Source: Organization for Economic Cooperation and Development as of June 28, 1971.

[3] Indicates estimate.

Staff note: Information not available as to how much foreign assistance rendered by France, Portugal, United Kingdom, the Netherlands, and Belgium is prior to colonies.

Source: Senate Appropriations Committee, "Foreign Assistance and Related Program Appropriations Bill, 1973."

While foreign investment by U.S. firms is not the underlying cause of persistent U.S. deficits, it is true that United States corporations have tended to produce for the large U.S. market and are not as dedicated to exporting as are their counterparts in Europe and Japan.

International Monetary Reform

"The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment." The statement was made by Secretary Shultz on February 12 as the United States devalued the dollar for the second time in 18-months. His statement is reproduced in the Appendix. On September 26, 1972, the Secretary outlined the U.S. position on long-term reform of the international monetary system.

The international monetary "system" is indeed in a state of transition. The underpinnings of the Bretton Woods system, established at the Bretton Woods, New Hampshire conference in 1944, were pulled when President Nixon, on August 15, 1971, announced to the Nation his new economic program. The President's program had two interrelated objectives in mind: (1) to correct the overvaluation of the dollar to reestablish the competitiveness of U.S. products in world markets, and (2) to reform the international monetary system to ease the continuing burdens on the United States and to serve better the economic needs of the entire world.

In order to obtain these objectives, the President:

(1) Suspended the convertibility of the dollar into gold, special drawing rights, or other reserve assets and allowed the dollar to "float" in exchange markets;

(2) Imposed a 10 percent import surcharge on all dutiable imports;

(3) Excluded foreign capital equipment from the proposed tax credit for investment;

(4) Proposed the Domestic International Sales Corporation (DISC) to stimulate U. S. exports;

(5) Asked Congress to reduce foreign aid appropriations by 10 percent.

The Bretton Woods System

These actions abruptly altered the "rules of the game" for international financial dealings between nations established at Bretton Woods. Under the Bretton Woods system, all currencies were officially denominated in terms of gold, although they were actually pegged to the dollar. The dollar was fixed to gold, and convertible into gold by official monetary institutions.

The dollar became the world's currency, serving as the means for maintaining "par values," the reserve currency in central bank holdings, and as the standard of value for all currencies.

Because of its central role in the world economy and for reasons of prestige, the United States felt it could not devalue the dollar outright and sought solutions to its balance of payments problems in other ways. During the late fifties and all through the sixties, the United States acted to "correct" its balance of payments through piecemeal actions: tied aid, military offset sales, the Interest Equalization Tax, controls over bank lending and direct investment abroad, tightening Buy American requirements on Defense purchases, and other "cosmetic" actions, such as debt prepayments to make the numbers look better. Nothing really altered the fundamental changes in economic relationships and the deficits continued.

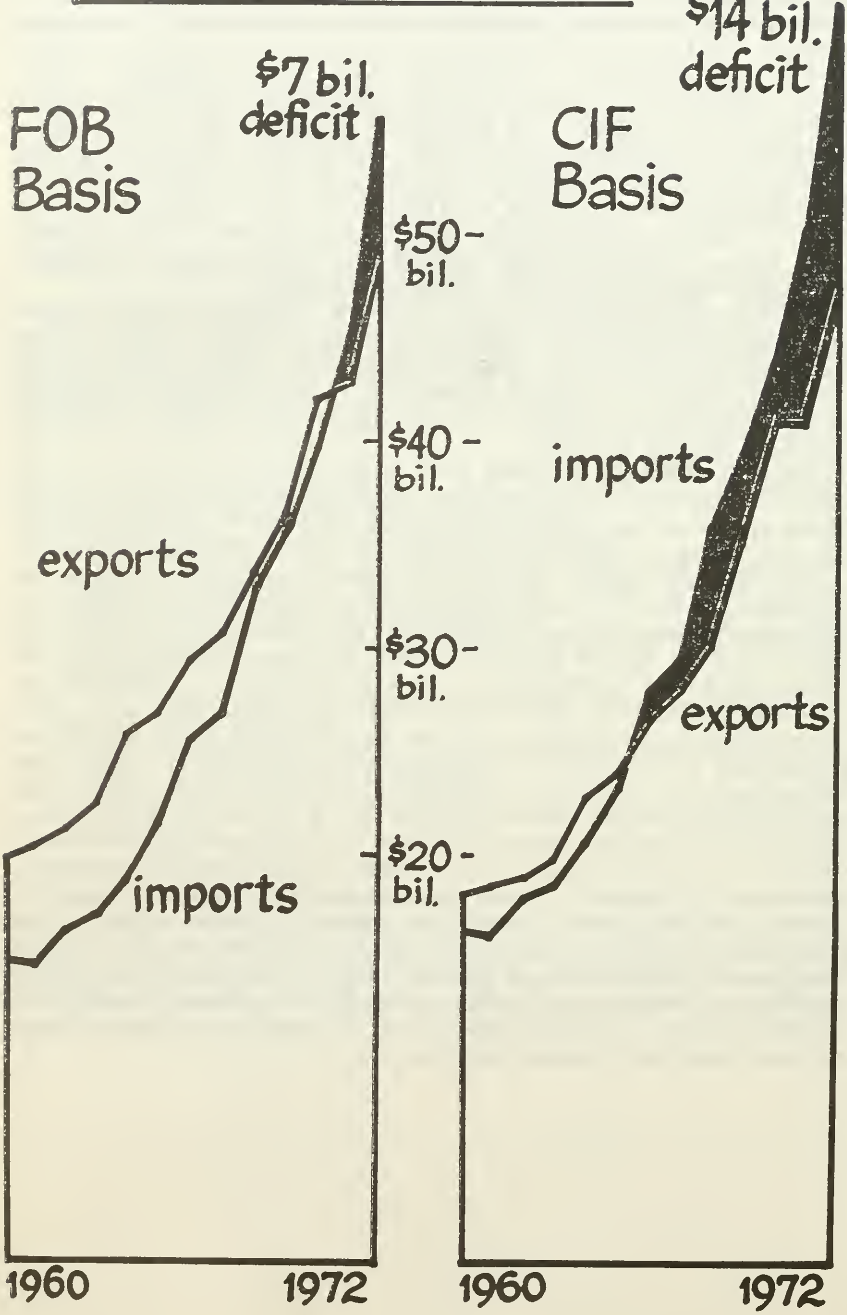
By the second quarter of 1971, no mere palliatives would improve our balance of payments deficits which were running at an over $20 billion annual rate. When those extraordinary deficits ballooned still further in the third quarter, running at over $40 billion annualized, accompanied by a massive run on the dollar, the President was forced to act on August 15, 1971.

After a period of turmoil, new currency rates were set at the heralded "Smithsonian Agreement" in December 1971. All the official observers billed this realignment as an "historic" occasion and predicted a swing into the United States balance of trade and payments.

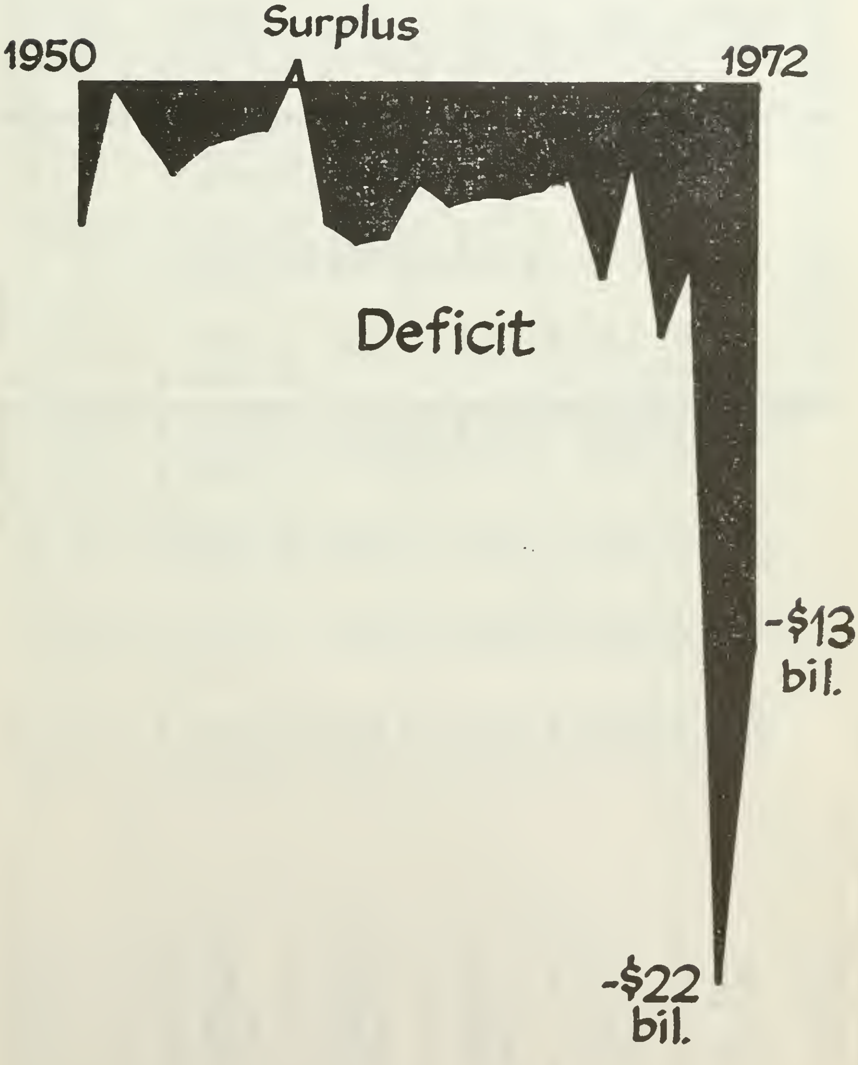
1972 did not witness any improvement, but rather a further deterioration in the U.S. trade and payments position, and by February 1973 another massive run on the dollar was upon us. The f.o.b. trade deficit shot up to $6.9 billion (balance of payments basis) while the c.i.f. trade deficit is estimated at the astounding level of $14.5 billion.

The unilateral devaluation of the dollar by 10 percent, and a float of certain other currencies such as the Japanese yen, the British pound, and the Italian lira, should result, over time, in a significant improvement in the U.S. competitive position. Imports of foreign products will become more expensive and U.S. exports will be more attractive in foreign markets. Yet, as the last devaluation showed, the short-term effects may well be negative. Furthermore, without a fundamental change in the rules governing international trade and finance, the international monetary system is likely to limp along from crisis to crisis and the deficit in the U.S. balance of payments could persist. The nations of the world face the alternatives of getting together to revamp the broken down Bretton Woods system in a cooperative way, or letting the law of the jungle take over in international trade and monetary matters.

Balance of Trade



Balance of Payments
(Liquidity Basis)



APPENDIX

TABLE A.—U.S. DIRECT INVESTMENTS ABROAD, BY AREA AND MAJOR INDUSTRY, 1960–71

[In millions of U.S. dollars]

	Book values							Value of total assets		Value of net fixed assets	
	1960	1962	1964	1966	1968	1970	1971[1]	1966	1970[2]	1966	1970[2]
All areas (total)	31,865	37,276	44,480	54,799	64,983	78,178	86,001	124,792	203,076	43,937	69,012
Manufacturing	11,051	13,250	16,935	22,078	26,414	32,261	35,475	49,156	78,000	19,502	30,915
Petroleum	10,810	12,725	14,328	16,222	18,887	21,714	24,258	27,280	43,871	15,130	22,696
Other	10,004	11,301	13,757	16,499	19,682	24,203	26,268	48,356	81,205	9,305	15,401
Canada (total)	11,179	12,133	13,855	17,017	19,535	22,790	24,030	30,345	42,634	11,689	18,723
Manufacturing	4,827	5,312	6,198	7,692	8,568	10,059	10,537	12,587	16,514	4,957	6,945
Petroleum	2,664	2,875	3,196	3,608	4,094	4,807	5,134	5,369	8,355	3,707	6,531
Other	3,688	3,946	4,461	5,717	6,873	7,924	8,359	12,389	17,765	3,025	5,247
Europe (total)	6,691	8,930	12,129	16,233	19,407	24,516	27,621	49,959	80,367	15,070	22,517
Manufacturing	3,804	4,883	6,587	8,879	10,797	13,707	15,538	22,894	37,263	8,874	13,913
Petroleum	1,763	2,385	3,122	4,003	4,635	5,466	6,202	8,701	13,360	4,530	5,976
Other	1,124	1,662	2,420	3,351	3,975	5,343	5,881	18,364	29,744	1,666	2,628
Latin America (total)	8,365	9,524	10,254	11,498	13,101	14,760	15,763	20,081	23,996	7,621	8,643
Manufacturing	1,521	1,944	2,507	3,318	4,005	4,621	4,998	7,342	10,719	2,806	4,075
Petroleum	3,122	3,642	3,589	3,475	3,680	3,938	4,194	4,002	4,323	2,521	2,408
Other	3,722	3,938	4,158	4,705	5,416	6,201	6,571	8,737	8,954	2,294	2,160
Other areas (total)	5,630	6,689	8,242	10,051	12,940	16,112	18,587	24,407	56,079	9,557	19,129
Manufacturing	899	1,111	1,329	2,189	3,044	3,874	4,402	6,333	13,504	2,865	5,982
Petroleum	3,261	3,823	4,421	5,136	6,478	7,503	8,728	9,208	17,833	4,372	7,781
Other	1,470	1,755	2,492	2,726	3,418	4,735	5,457	8,866	24,742	2,320	5,366

[1] Preliminary.

[2] Estimated from sample data.

Source: Book values from U.S. Department of Commerce, "Survey of Current Business;" asset figures from data supplied to the U.S. Tariff Commission by U.S. Department of Commerce, Bureau of Economic Analysis, International Investment Division.

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Department of the Treasury,
Washington, D.C., February 12, 1973.

Statement on Foreign Economic Policy by Secretary of the Treasury George P. Shultz

The United States, as do other nations, recognizes the need to reform and strengthen the framework for international trade and investment. That framework must support our basic objective of enhancing the living standards of all nations. It must encourage the peaceful competition that underlies economic progress and efficiency. It must provide scope for each nation—while sharing in the mutual benefits of trade—to respect its own institutions and its own particular needs. It must incorporate the fundamental truth that prosperity of one nation should not be sought at the expense of another.

This great task of reform is not for one country alone, nor can it be achieved in a single step. We can take satisfaction in what has been accomplished on a cooperative basis since the actions announced on August 15, 1971 clearly signaled our recognition of the need for decisive change.

Intense negotiations established an important fact in December 1971: mutual agreement can be reached on changes in the pattern of world exchange rates, including the parity of the United States dollar, in order to promote the agreed goal of a better balance in international trade and payments.

Monetary negotiations have been started by the "Committee of Twenty" on the premise that better ways must be found to prevent large payments imbalances which distort national economies, disturb financial markets, and threaten the free flow of trade. The United States has made practical and specific proposals for international monetary reform.

The groundwork is being laid for comprehensive trade negotiations. Those negotiations should look beyond industrial tariffs to encompass also other barriers to the free flow of goods. They should assure fair competitive treatment of the products of all countries. They should also seek agreed ways of avoiding abrupt dislocations of workers and businesses.

In September 1972 the President told the financial leaders of the world that "The time has come for action across the entire front of international economic problems. Recurring monetary crises, such as we have experienced all too often in the past decade; unfair currency alignments and trading arrangements, which put the workers of one nation at a disadvantage with workers of another nation; great disparities in development that breed resentment; a monetary system that makes no provision for the realities of the present and the needs of the future—all these not only injure our economies, they also create political tensions that subvert the cause of peace."

At the same meeting, I outlined the principles of a monetary system that would enable all nations, including the United States, to achieve and maintain overall balance in their international payments. Those principles would promote prompt adjustment and would provide equitable treatment for all nations—large and small, rich and poor.

Yet, in recent months we have seen disquieting signs. Our own trade has continued in serious deficit, weakening our external financial position. Other nations have been slow in eliminating their excessive surpluses, thereby contributing to uncertainty and instability. In recent days, currency disturbances have rocked world exchange markets. Under the pressure of events, some countries have responded with added restrictions, dangerously moving away from the basic objectives we seek.

Progress in the work of the Committee of Twenty has been too slow and should move with a greater sense of urgency. The time has come to give renewed impetus to our efforts in behalf of a stronger international economic order.

To that end, in consultation with our trading partners and in keeping with the basic principles of our proposals for monetary reform, we are taking a series of actions designed to achieve three interrelated purposes:

(a) to speed improvement of our trade and payments position in a manner that will support our effort to achieve constructive reform of the monetary system;

(b) to lay the legislative groundwork for broad and outward-looking trade negotiations, paralleling our efforts to strengthen the monetary system; and

(c) to assure that American workers and American businessmen are treated equitably in our trading relationships.

For these purposes:

First, the President is requesting that the Congress authorize a further realignment of exchange rates. This objective will be sought by a formal 10 percent reduction in the par value of the dollar from 0.92106 SDR to the dollar to 0.82895 SDR to the dollar.

Although this action will, under the existing Articles of Agreement of the International Monetary Fund, result in a change in the official relationship of the dollar to gold, I should like to stress that this technical change has no practical significance. The market price of gold in recent years has diverged widely from the official price, and under these conditions gold has not been transferred to any significant degree among international monetary authorities. We remain strongly of the opinion that orderly arrangements must be negotiated to facilitate the continuing reduction of the role of gold in international monetary affairs.

Consultations with our leading trading partners in Europe assure me that the proposed change in the par value of the dollar is acceptable to them, and will therefore be effective immediately in exchange rates for the dollar in international markets. The dollar will decline in value by about 10 percent in terms of those currencies for which there is an effective par value, for example the Deutsche mark and the French franc.

Japanese authorities have indicated that the yen will be permitted to float. Our firm expectation is that the yen will float into a relationship vis-a-vis other currencies consistent with achieving a balance of payments equilibrium not dependent upon significant government intervention.

These changes are intended to supplement and work in the same direction as the changes accomplished in the Smithsonian Agreement of December 1971. They take into account recent developments and are designed to speed improvement in our trade and payments position. In particular, they are designed, together with appropriate trade liberalization, to correct the major payments imbalance between Japan and the United States which has persisted in the past year.

Other countries may also propose changes in their par values or central rates to the International Monetary Fund. We will support all changes that seem warranted on the basis of current and prospective payments imbalances, but plan to vote against any changes that are inappropriate.

We have learned that time must pass before new exchange relationships modify established patterns of trade and capital flows. However, there can be no doubt we have achieved a major improvement in the competitive position of American workers and American business.

The new exchange rates being established at this time represent a reasonable estimate of the relationships which—taken together with appropriate measures for the removal of existing trade and investment restraints—will in time move international economic relationships into sustainable equilibrium. We have, however, undertaken no obligations for the U.S. Government to intervene in foreign exchange markets.

Second, the President has decided to send shortly to the Congress proposals for comprehensive trade legislation. Prior to submitting that legislation, intensive consultations will be held with Members of Congress, labor, agriculture, and business to assure that the legislation reflects our needs as fully as possible.

This legislation, among other things, should furnish the tools we need to:

(i) provide for lowering tariff and non-tariff barriers to trade, assuming our trading partners are willing to participate fully with us in that process;

(ii) provide for raising tariffs when such action would contribute to arrangements assuring that American exports have fair access to foreign markets;

(iii) provide safeguards against the disruption of particular markets and production from rapid changes in foreign trade; and

(iv) protect our external position from large and persistent deficits.

In preparing this legislation, the President is particularly concerned that, however efficient our workers and businesses, and however exchange rates might be altered, American producers be treated fairly and that they have equitable access to foreign markets. Too often, we have been shut out by a web of administrative barriers and controls. Moreover, the rules governing trading relationships have, in many instances, become obsolete and, like our international monetary rules, need extensive reform.

We cannot be faced with insuperable barriers to our exports and yet simultaneously be expected to end our deficit.

At the same time, we must recognize that in some areas the United States, too, can be cited for its barriers to trade. The best way to deal with these barriers on both sides is to remove them. We shall bargain hard to that end. I am convinced the American workers and the American consumer will be the beneficiaries.

In proposing this legislation, the President recognizes that the choice we face will not lie between greater freedom and the status quo. Our trade position must be improved. If we cannot accomplish that objective in a framework of freer and fairer trade, the pressures to retreat inward will be intense.

We must avoid that risk, for it is the road to international recrimination, isolation, and autarky.

Third, in coordination with the Secretary of Commerce, we shall phase out the Interest Equalization Tax and the controls of the Office of Foreign Direct Investment. Both controls will be terminated at the latest by December 31, 1974.

I am advised that the Federal Reserve Board will consider comparable steps for their Voluntary Foreign Credit Restraint Program.

The phasing out of these restraints is appropriate in view of the improvement which will be brought to our underlying payments position by the cumulative effect of the exchange rate changes, by continued success in curbing inflationary tendencies, and by the attractiveness of the U.S. economy for investors from abroad. The termination of the restraints on capital flows is appropriate in the light of our broad objective of reducing governmental controls on private transactions.

The measures I have announced today—the realignment of currency values, the proposed new trade legislation, and the termination of U.S. controls on capital movements—will serve to move our economy and the world economy closer to conditions of international equilibrium in a context of competitive freedom. They will accelerate the pace of successful monetary and trade reform.

They are not intended to, and cannot, substitute for effective management of our domestic economy. The discipline of budgetary and monetary restraint and effective wage-price stabilization must and will be pursued with full vigor. We have proposed a budget which will avoid a revival of inflationary pressure in the United States. We again call upon the Congress, because of our international financial requirement as well as for the sake of economic stability at home, to assist in keeping Federal expenditures within the limits of the President's budget. We are continuing a strong system of price and wage controls. Recent international economic developments reemphasize the need to administer these controls in a way that will further reduce the rate of inflation. We are determined to do that.

The cooperation of our principal trading and financial partners in developing a joint solution to the acute difficulties of the last few days has been heartening. We now call upon them to join with us in moving more rapidly to a more efficient international monetary system and to a more equitable and freer world trading system so that we can make adjustments in the future without crises and so that all of our people can enjoy the maximum benefits of exchange among us.

Appendix B

U.S. Multinationals—The Dimming of America—A Report Prepared for the AFL–CIO Maritime Trades Department Executive Board Meeting

U.S. MULTINATIONALS—THE DIMMING OF AMERICA

(A Report Prepared for the AFL–CIO Maritime Trades Department Executive Board Meeting, February 15–16, 1973)

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INTRODUCTION

Proud countries are losing the power to shape their own destinies, to guide their economies, to collect their taxes, to better their lives of their people. They are increasingly at the mercy of stateless, soulless, anonymous multinational corporations. A new form of business—the multinational corporation—is, according to AFL–CIO economist Elizabeth Jager, "quietly revolutionizing the world's economy and moving more rapidly than governments' ability to regulate and control the effects."

Nor is labor alone among the alarmed.

"Already some of the corporate empires wield more clout than some governments," said Dow Jones' economic editor.

The multinational is the creature of today's new technology. Without the instanteous telecommunications and data processing that characterize the age in which we live, the multinational would not be possible. American-based business has taken full advantage of space-aged technology. Contemporary corporate activities respect no national boundaries. Blueprints in New York can be transmitted via computer to Japan in seconds. A manager in San Francisco can talk to London in a minute and fly there in a matter of hours.

Basically, it is the American conglomerates which have adopted this technology, pulled up stakes, and become the multinationals.

The great merger movement of the last decade concentrated vast economic power in the hands of a small number of corporations. By 1968, the nation's 100 largest corporations controlled 50 percent of the nation's manufacturing assets. General Motors, for example, had $28 billion in sales last year alone. GM's sales for one year were thus larger than the annual gross national product of about 130 of the world's countries. Through interlocking directorates, the men who control GM also control assets equal to the 1960 U.S. Federal budget.

In 1970, The Conference of Transportation Trades' report, *Conglomerates: Concentration, Collusion, Control* explored the rapacious nature of America's super industrial giants. The same voracious appetite for expansion and control that obliterated industry lines in the 1960's is obscuring national boundaries in the 1970's.

The multi-industry conglomerates have gone global. They are the multi-industry multinational goliaths of today, and their activities are having painful repercussions for the nation that gave birth to their corporate charters. Harvard University Professor Raymond Vernon pointed out that the impact of multinationals is so awesome that, "suddenly, the sovereign states are feeling naked. Concepts such as national sovereignty and national economic strength appear curiously drained of meaning."

In fact, the U.S. today is no longer the unchallenged leader of the economic world. In many respects we are now second-rate. In spite of devaluation, for example, our currency is still shaky on the world market. Nearly 5 million U.S. workers are unemployed—and the unemployed, together with those being forced to work part time because of the scarcity of jobs, represent 6 percent of the work force. And no relief is in sight. For the first time since 1888, the U.S. has suffered a balance-of-trade deficit—and the situation grows steadily worse. In 1971's $2.7 billion deficit had grown to a whopping $6.7 billion annual rate in the third quarter of 1972.

Yet while the economy of the United States has been declining, expatriate Americans have forged a business empire that rivals the gross national product of Japan. The annual production of American companies abroad is reported to be about $220 billion. That is almost a third of the $666 billion value of shipments manufactured in the United States during 1970. American-based companies now have more than $78 billion invested in overseas plants and equipment.

Some 3,400 American corporations have built a stake in around 23,000 businesses abroad, including more than 8,000 producing affiliates.

THE DIMMING OF AMERICA

This great exodus of American production to overseas plants has led economists, labor leaders, and even some farsighted businessmen to wonder whether we are witnessing the dimming of America. This greatest industrial power in the world's history is in danger of becoming nothing more than a nation of hamburger stands . . . a country stripped of industrial capacity and meaningful work . . . a service economy . . . a nation of citizens busily buying and selling cheeseburgers and root beer floats.

The chairman of White Consolidated Industries, Edward Reddig said, "When all manufacturing is done overseas, I'm going to be a cheese salesman." Unfortunately, when all manufacturing is done overseas, American workers are going to be unemployed and Mr. Reddig will have no one to buy his cheese.

The AFL–CIO Maritime Trades Department's concern for the declining economic posture of this country and the increased unemployment of the American worker has been a matter of record for several years The 1970 Executive Board Resolution adopted on International Trade said, "All of us know the precarious position of the American dollar in the international money market. We have seen our gold reserves dwindle, our balance of trade borders on the negative. We are close to importing more than we export." MTD has been determined to learn why our mighty nation has gotten into such a perilous economic situation.

In 1971, a report of a Special Committee to the MTD Executive Board entitled *Foreign Imports: Their Impact on the Jobs of American Workers* found that: "(glut of products imported into the United States in the last decade has made a devastating dent in the nation's economy . . . The economics of imports is the economics of millions of U.S. workers who are forced out of their jobs because of the overwhelming crush of imported goods that are flowing, nearly unrestrained into the country daily."

The report concluded that "It is obvious that the situation will deteriorate further unless something is done."

OUTLOOK: STEADILY WORSE

Something has not been done, and the United States continues to suffer from chronic unemployment and underemployment. There is every indication that under our present policies, the economic situation in this country will become steadily worse. A *Wall Street Journal* article explained that the United States in the '70's needs 15 million new jobs just to keep pace with the growth in the work force. Yet even these 15 million new jobs will not cut into the present unemployment rate which is bringing misery and hunger to millions of Americans. Instead of creating jobs, America is exporting jobs. Indeed, jobs have become a major American export. Because of the activities of American-based multinationals, jobs are being lost in a three-pronged attack on the national welfare:

> Jobs are lost when a plant is shut down in favor of overseas production.
>
> Jobs are lost when imports from foreign affiliates take the place of U.S.-made products.
>
> Jobs are lost when a U.S. firm locates in a foreign country and serves a market from that country which was once served by U.S.-made exports.

A report presented to the MTD Board last year, entitled *Foreign Trade: Impact of the Multinational,* put the spotlight on the negative job impact of American multinationals by using General Electric as an example. The report found that "since 1965, U.S. employment by GE has increased by only 20 percent while foreign employment has risen by 107 percent. This does not just represent potential jobs lost to the U.S. As GE's corporate structure changed and became more foreign-production oriented, facilities in the U.S. were shut down and replaced by overseas units. Workers were thrown out of work, incomes stopped and, in short, the whole fabric of family life was shattered for thousands of American workers." GE is an example of why the Industrial Union Department, AFL–CIO, calls the multinational corporation "a modern-day dinosaur which eats the jobs of American workers." These dinosaurs are roaming the world in search of huge profits, low wages, and negligible taxes. They are now shunning the laws, taxes, and needs of this country, just as they have shunned the flag of this nation. We in the Maritime Trades Department know only too well how the major corporations of America refuse to even call themselves American. For example, the executive vice president of Ford Motor Co. has said, "We don't consider ourselves basically an American company."

The Maritime Trades Department recognizes that American industry has made a major contribution toward making America the greatest industrial power in the history of mankind. This report will examine the complex laws, policies, and activities that have led American-based multinationals to turn their backs on the country they once were proud to call home.

THE NON-AMERICAN "COSMOCORPS"

"The nation-state is no longer an adequate or even a very relevant economic unit." This statement did not come from Karl Marx or a member of a homegrown revolutionary group. It came from the lips of former Under Secretary of State George Ball, who is now a senior partner in Lehman Brothers, one of the nation's most prestigious financial institutions. Mr. Ball also said, "Conflict will increase between the world corporation, which is a modern concept evolved to meet the requirements of the modern age and the nation-state, which is still rooted in archaic concepts unsympathetic to the needs of our complex world." Mr. Ball calls his corporate monoliths that are unencumbered by the "archaic nation-state" concept "cosmocorps."

The public statements uttered by other members of the American-based multinational community make it continuously more difficult to determine whether they are simply non-American or un-American. The multinational has not only declared war on the jobs of American workers, but on the traditional concept of Americanism.

Dr. Antonie Knopper, president of Merck & Co., defines a multinational corporation as "an enterprise that sees the world or a goodly portion of it as its market and acts to make the most of its opportunities on a supra-national basis."

To help us understand the business community's march toward a stateless world managed from corporate boardrooms, the National Association of Manufacturers book, *The Role of the Multinational Corporations*, has provided the following definitions:

1. *International firm.* One in which international operations are consolidated in a home office on the division level and which, as a matter of policy, is willing to consider all potential strategies for entering foreign markets up to direct investment.
2. *Multinational firm.* One in which both structurally and policy-wise, foreign operations are co-equal with domestic. . . . Decisions remain nationally based for ownership, and headquarters' management remains uni-national.
3. *Trans-national firm.* A multinational firm managed by and owned by persons of different national origins.
4. *Supra-national firm.* A trans-national firm legally denationalized by permitting it exclusively to register with, be controlled by, and pay taxes to some international body.

In the above definitions there is a steady progression towards statelessness and an almost anarchistic contempt for national identity. American-based business has turned theory into fact by its actions and statements.

It is true that for most of our economic history a commanding form of business has been the international firm. During the period that the international corporations were the dominant business firms, America enjoyed a healthy trade and balance-of-payments surplus. American companies produced goods in the United States and exported these goods to other nations.

American firms were reluctant to take their job-producing manufacturing processes overseas. In fact, when the United States government tried, through a series of tax incentives and other policies, to interest American companies in overseas investment right after World War II, the government found very few takers. The U.S. government hoped that American corporations would lend a hand in the recovery of war-torn Europe. It was tought that a flow of company investment funds would reduce the level of official loans and grants needed to launch Europe's economic recovery. But American companies did not rush to Europe to help in the recovery endeavor. It was not until the European countries were recovered enough to form a lucrative market that America's corporate giants stepped in to reap the benefits of those post-war tax incentives.

Multinational expansion did not start until about a decade ago. The growing preoccupation with overseas operations since then has been phenomenal. For example, annual plant and equipment outlays of direct foreign investments have risen from 3.8 billion in 1960 to an estimated $15.3 billion in 1971. While plant and equipment outlays were increasing fourfold, the book value of total direct foreign investments was more than doubling. In the decade from 1960 to 1970, the value of these investments increased from $31.9 billion to $78.1 billion. The value of the overseas production of U.S. companies now stands at $220 billion a year.

Somewhere between 1960 and 1970, the multinational firm replaced the international firm as the dominant form for American-based big business.

THE NON-AMERICAN EXECUTIVE

Along with this changed emphasis came a changed attitude on the part of American corporations. No longer did the managers of America's corporate giants consider themselves to be working in partnership with this country for the betterment of the citizens of our land. They were rapidly scrambling to become non-American. This oft-quoted but still powerful statement by Robert Stevenson, executive vice president for International Operations of the Ford Motor Co., is an example of the emerging non-American sentiment:

"It is our goal to be in every single country there is, Iron Curtain countries, Russia, China. We at Ford Motor Company look at a world map without any boundaries. We don't consider ourselves basically an American company. We are a multinational company. And when we approach a government that doesn't like the U.S., we always say, 'Who do you like? Britain? Germany? We carry a lot of flags. We export from every country.' "

The vice president of Caterpillar Tractor Corp., W. J. Barnholdt is even more outspoken in his company's desires to rid itself of any allegiance to the United States. He said:

"Caterpillar is owned by approximately 48,000 shareholders and our stock is traded on exchanges in the United States, France, England, Scotland, West Germany, Switzerland, and Belgium. We have 65,000 employees, 22 percent of whom work abroad. We are a multinational company, treating foreign operators as co-equal with domestic, in both structure and policy, willing to allocate resources without regard to national frontiers.

"We will one day become a trans-national company—a multinational business managed and owned by people of different nationalities—through current programs aimed at developing more top managers of different national origins and greater ownership by investors outside the U.S. Thus while we export from the U.S., our views as to transportation, markets, and product are worldwide. For example, there is no U.S.-made Caterpillar tractor. A Caterpillar product—wherever it is built—is just that—a Caterpillar product—graphic evidence that people of different national origins and political interests can achieve common objectives."

The multinationals are rapidly working to achieve a higher stage of statelessness in their push toward "cosmocorp." American corporations are not content to be merely multinational but are seeking to become powerful transnational economic forces.

The policy decisions of multinationals are based on corporate interest without concern for any national interests. If in the pursuit of the corporate interest a conflict arises between company and country, many multinational managers believe the company should come first. To the multinational, then, corporate interests are separate and distinct from that of every government, including the government of its own origin, as a series of statements by multinational leaders indicates.

Samuel Pisar, a well-known international lawyer who represents multinationals, candidly admits that "multinational firms have detached themselves from their American moorings and have taken off on the high seas. Now they are stateless. . . ."

These non-Americans are seeking to create an international management team to achieve transnational status, a form even more stateless than today's multinationals.

Companies are adopting policies to attract able managers and motiviate them to think in world-wide terms. Typical U.S. multinationals have non-American top management personnel. For example, the president of IBM World Trade Corp. is French. The second most powerful man of Black and Decker—its finance committee chairman—is London-based Robert Appleby, an Englishman.

There is evidence of a deliberate trend toward international management. "The basic incentive to me," said Sperry Rand President J. Frank Forster, "is promotion on a world-wide career path." The president of Niagara Falls-based Carborundum Co., put it even more bluntly: "Having managers indigenous to the country where you are located is not multinational management. I am working on getting multinational management in Niagara Falls."

This trend towards international management will clearly further loosen any possible ties to the United States. What is being formed is an elite group of "men without a country." Professionals whose allegiance is to their multinational corporation and not to the nation of their birth. Trained and duty-bound to serve the interests of "corporations without a country."

Charles Kindleberger, author of *American Business Abroad*, underscored the evolving character of multinational management when he said, "This staff of executives is likely to be committed to the aggrandizement of the corporation. any of their own incomes and stock options, which will overwhelm any tendency in the multinational corporation for separate subsidiaries to behave like national corporations."

The credo of the multinational executive is becoming "company before country." The chairman of the U.S.-owned Ronson's British subsidiary bluntly defines the duty of an executive this way:

"He must set aside any nationalistic attitudes and appreciate that in the last resort his loyalty must be to the shareholders of the parent company and he must protect their interests even if it might appear that it is not perhaps in the national interest of the country in which he is operating. Apparent conflicts may occur in such matters as the transfer of funds at a period of national crisis, a transfer of production from one subsidiary to another, or a transfer of export business."

In other words, a good multinational manager must ignore any feelings of patriotism or of responsibility to the citizens of his country.

WHY THEY RUN

Unfortunately, this is not an entirely new attitude for American business. For meeting its responsibilities to American citizens is something our "non-American" corporate giants have historically run away from. The multinational is the modernday relative of the old runaway company that fled the North to the cheap wage rates of the South. Now we have world-wide runaway corporations. Global economic giants that can order governments to comply with corporate needs—or else.

For example:

If a multinational does not like a U.S. minimum wage of $1.60 an hour, it may simply close its plant and move across the border to Mexico and pay workers 16 cents an hour.

If a multinational does not like our National Labor Relations Act, it may remove its facilities to some land where unions are either non-existent or legally disapproved.

If a multinational does not like America's Fair Employment Practices Laws, it may set up shop in South Africa—Rhodesia.

If a multinational does not like America's long overdue concern for the environment, it may move and pollute some other country's natural resources.

If a multinational does not like U.S. taxes, it may structure its accounts to show little profits here while recording huge gains in other countries with little or no corporate taxes.

If a multinational does not like our safety codes, our Social Security, our child labor laws, or our unemployment compensation; it may move and avoid all social costs.

American-based multinationals, by moving to another part of the world, shun the laws of this country, just as they shun the flag of this nation. A flag they refuse to carry on the high seas. American-flag ships only carried 4.7 percent of our country's oceanborne foreign trade in 1970. While U.S. multinationals had a runaway-flag fleet large enough to be the world's fifth biggest maritime power. The fleets of these non-Americans are more than four million deadweight tons larger than the American-flag fleet.

Despite this total lack of regard for the welfare of this coutry, American-based multinationals still can learn from some foreign-based global giants in terms of sheer audacity. Dr. Max Gloor, director of the Swiss-based Nestle Alimentana said:

"We cannot be considered either as pure Swiss, or as purely multinational, i.e., belonging to the world at large, if such a thing does exist at all. We are probably something in between, a breed on our own. In one word, we have the particular Nestle citizenship."

Nestle citizenship . . . GM citizenship . . . Standard Oil citizenship . . . General Electric citizenship—these multinationals have the economic muscle to be "a breed on their own." They are more powerful than many countries. See Appendix A, page 87.

Fifty-one of the world's 100 largest economic entities are corporations rather than nations. General Motors 1970 sales of $18.8 billion made it the 24th largest economic unit in the world. By 1971 GM's sales had climbed to $28.3 billion. GM's sales are larger than the Gross National Products of either heavily populated Pakistan or resource-rich South Africa. A.T.&T., Standard Oil of New Jersey, and Ford Motors all have larger annual sales than the GNP's of long-established developed countries like Austria or Norway.

And the growth rate of these multinationals often outstrips the growth rate of nations. GM, for example, has been growing at a far faster rate than the United States. In fact, during the period 1965 to 1970, GM's economic growth rate was more than double that of the U.S.—GM's sales increased 90 percent, while the GNP of the U.S. increased only 43 percent. This disparity in growth rates appears to be widening. For example, during 1971, the GNP for the U.S. increased only 7 percent, while GM's sales increased by a whopping 50 percent.

The might of these multinationals is even more awesome when one considers how much more readily corporate giants tend to act in concert than do nation-states. As a report to the Conference of Transportation Trades, AFL–CIO, pointed out: "Conglomerate firms tend to behave interdependently. When taken together, interlocking directorates, joint ventures, reciprocity, and the potential dangers of cross-subsidization give rise to a general 'camaraderie' among corporate giants." The combined economic strength of the world's 20 largest multinationals, for example, is greater than the Gross National Product of France and 15 other nations among the world's top 20.

The world's 20 largest corporations increased their sales by 15 percent, from 1970 to 1971. 1971 figures are not available for the Gross National Products of the world's 20 largest countries. However, 17 of the 20 largest companies are American. During the 1970–1971 period, the combined growth rate of the world's 20 largest corporations was 15 percent. America's GNP grew at a rate of only 7 percent.

Thus, the combined sales of the 20 largest multinationals alone, totaling $173.2 billion in 1970, made them the world's fifth largest economic power. They are rapidly becoming the third largest economic power—closing in on West Germany—with a GNP of $184.8 billion and Japan with a GNP of $196.7 billion.

Harvard Professor Raymond Vernon pointed out that:

"Suddenly, it seems, the sovereign states are feeling naked. Concepts such as national sovereignty and national economic strength appear curiously drained of meaning . . . France feels oppressed by the presence of foreign-owned subsidiaries; yet its response is limited and restrained."

Newsweek magazine reported in its Nov. 20, 1972 issue that, in terms of assets, the treasuries of multinationals "often outstrip those of the countries in which they operate." The article added that "their maneuvers defy mere national regulation, and their interests don't necessarily coincide with those of any country, not even with their base of operations."

Nonetheless, many multinational managers see themselves as the prime agents for economic development, international prosperity and even world peace. William I. Spencer, president of the First National City Corp., said, "They seek profitable opportunity in addressing themselves not to the demands of the privileged few, but to the urgent needs of the overwhelming many."

On the other hand, others like Gus Tyler, assistant to the president of the International Ladies Garment Workers Union, sees "the kind of head-on clash between economic empire and national interest that, historically, has led to internal upheaval and foreign wars. Against this rising threat, the claim of the multinationals that they are the great peace makers for the planet rings ironically."

Even international lawyer Samuel Pisar, whose clients include multinational corporations, sees an emerging battle that will "pit two gigantic forces; the economic power of the multinationals and the political power of nation-states."

GLOBAL CORPORATE STRATEGY

Dr. Richard Eells, director, Studies of Modern Corporation at Columbia University, also sees an upcoming battle for the multinational corporation. He believes that "the survival of the multinational corporation in the future will depend heavily upon the manning of its top posts with people who . . . can envisage the optimum role for a global corporation in a hazardous environment." Dr. Eells has developed four strategies which range from the benign to the terrifying to help the multinational survive.

Strategy No. 1: Good sensible economics is essential now and will continue to be in the economy that Dr. Eells calls "global" and "emergent."

Strategy No. 2: "Negotiation." A multinational manager must learn to handle discussions between "power entities in the world arena . . . including not only bargaining in the business sense, but also embracing all the arts of diplomacy; offer, counteroffer, the wise use of intelligence."

Strategy No. 3: A "quasi-military strategy" which includes communications. The multinational manager must "make full and statesmanlike use of information technology and ideological defenses."

Strategy No. 4: "The strategy of the ultimate sanction." This involves "coercive force . . . involving indirect reliance upon military power in the hands of political leaders together with the corporation's own armed guards in far-flung field operations."

There is every indication that today's "corporate princes" are using the strategy of Dr. Eells. For example:

Singer's world-wide intelligence network had warned of the August, 1971 dollar crisis and the company quietly shifted the company funds out of dollars into safer currencies by the time of the devaluation.

According to *Newsweek* magazine, "There have been suggestions that at least a few multinationals have smuggled hard cash into the U.S. to avoid taxes and to make political payoffs."

ITT has already used the strategy of the "ultimate sanction" when it plotted to undermine Chile's President Salvador Allende Gossens.

Meanwhile, Dow Chemical Co. Board Chairman Carl A. Gerstacker dreams of becoming a country unto himself:

"I have long dreamed of buying an island owned by no nation, and of establishing the World Headquarters of the Dow Co. on the truly neutral ground of such an island, beholden to no nation or society . . . We appear to be moving strongly in the direction of what might be called 'anational' companies, nationless companies."

Mr. Gerstaker's hopes for the "Island of Dow," and the actions and arrogance of other multinationals, has led even *Business Week* to admit:

"Gradually, multinational corporations are losing the close identity that they once had with the interests of the country where corporate headquarters are located. What is good for the multinational companies, in the long run, should be good for the global economy that is slowly emerging, but it could be painful for any specific country including the one that they call home."

Though *Business Week* said "it could be painful," American workers know that the actions of the multinationals have already caused much "pain." The next chapter of this report will probe the economic impact the multinationals are having on the country they used to call home.

Foreign Operations of U.S. Multinationals

While U.S.-based multinational operations blanket the world with around 12,000 overseas operations, they are most heavily concentrated in the industrialized, well-developed, and prosperous nations—1,255 in Canada, 923 in the United Kingdom, 559 in Japan. Direct overseas investment involves the transfer of capital, technology, management expertise, etc. from this country to some other country. But more important, these overseas operations represent an international trade-off in which the average American citizen gets the worst of the bargain.

> It is a trade of American jobs for jobs in France, Australia, South Africa, anyplace in the world.
>
> It is a trade of revenue dollars for the U.S. Treasury for unrepatriated and untaxed dollars which find their way into the Eurodollar market or the tax havens of the Caribbean.
>
> It is a trade of exports and a healthy balance-of-trade surplus for imports and a balance-of-trade deficit.
>
> It is a trade of a balance-of-payments surplus and a sound American dollar for a balance-of-payments deficit and a dollar that is still shaky despite devaluation.
>
> It is a trade of the skills and livelihood of American workers for the stock dividends of a privileged few.

In the past 10 years, major American corporations have focused less on exports than on buildings plants and producing goods overseas. Between 1960 and 1970, for example, the value of American investment abroad has risen from

$32 billion to $78 billion, and almost 3,600 American companies now have at least one plant overseas. According to AFL–CIO Research Director Nat Goldfinger, "fully 25 percent of all U.S. trade today consists not of transactions between a U.S. company and foreign nationals but transfers between divisions of these multinationals—with the type of goods and their prices determined by the company's internal needs and tax considerations, rather than by the dictates of international competition."

In many cases United States governmental policy has abetted this flight from American-based production. By failing to negotiate the abolition of foreign tariff and nontariff barriers, the State Department in many cases left American companies no choice but to invest in foreign facilities in order to enter markets in Europe and the Far East. An April 24, 1972, *Newsweek* article reported:

GROWTH OF U.S. DIRECT INVESTMENTS ABROAD, BY AREA AND INDUSTRY, 1950–70[1]

	Amount in billion dollars		Percent of total	
	1950	1970[2]	1950	1970[2]
All areas, total	11.8	78.1	100.0	100.0
Canada	3.6	22.8	30.5	29.2
Latin America	4.6	14.7	39.0	18.8
Europe	1.7	[3] 24.5	14.4	31.4
Middle East and Africa	1.0	5.1	8.5	6.5
Other areas	.9	11.0	7.6	14.1
All industries, total	11.8	78.1	100.0	100.0
Mining and smelting	1.1	6.1	9.3	7.8
Petroleum	3.4	21.8	28.8	27.9
Manufacturing	3.8	32.2	32.2	41.2
Other	3.5	17.9	29.7	23.0

[1] Book value at yearend.
[2] Provisional.
[3] Excludes Eastern Europe.
Note: Detail may not add to totals because of rounding.

Source: Survey of Current Business, passim

"(Treasury Secretary John) Connally and (Commerce Secretary Peter) Peterson insist that State is soft on trade issues. One high Administration source close to Commerce recalls that some of State's commercial attaches, asked to send in detailed reasons why U.S. industry was not selling more to their countries, sent elaborate explanations and defenses of all the foreigners' non-tariff barriers. You know in your heart that the State Department is on your side, but sometimes you just have to wonder.'"

American embassies abroad actively try to entice American business out of the United States. An airgram from the American Embassy at Port-Au-Prince, Haiti, entitled "Profile of an Industry—the Haitian Transformation Scene, 1971," lists a number of factors that "should in the near future entice numbers of U.S. manufacturers of labor-intensive products, who are finding it increasingly (sic) more expensive to produce in the United States." Among the factors listed as favorable for investment in Haiti is "the availability of a large pool of inexpensive labor that is easily trainable and is highly motivated."

It is true that in many cases, American-based multi-nationals were forced to go overseas in order to get into the market. For example, investment in the Common Market, which increased 500 percent between 1959 and 1969, was necessary in order to circumvent the high tariff barriers against imports from outside the Common Market. Another example was reported by the *Journal of the Chamber of Commerce of Japan* which said:

"The United States would be absolutely frozen out of the major part of our foreign markets without investments by U.S. multinational firms since this has proven to be the only effective means of overcoming foreign market restrictions on U.S. exports."

In spite of these valid reasons for overseas investment, the fact remains that the activities of American-based multi-nationals have had a destructive effect on the American economy.

As *Business Week* Dec. 19, 1970, reported:

"Though they have injected $38 billion worth of repatriated profits into the U.S. economy over the past decade, the multinationals' rise has probably had an adverse effect on American output and employment. Because companies have found it profitable to build plants abroad, foreign production has replaced exports. Not only has this meant fewer jobs and slower economic growth in the U.S., it has also generated balance-of-payments problems that are still far from being resolved."

DYNAMICS OF OVERSEAS INVESTMENT

Each overseas operation of a U.S.-based multinational firm contributes to the overall operation of the multinational—each overseas investment is made with a company objective in mind. Overseas investments may fulfill a variety of company goals with each having different types of contributions to make to the profitability and strength of the multi-national. The purpose of a foreign affiliate may be raw material extraction, manufacturing, a springboard for further expansion of markets and/or products, or reduction of the company's total tax burden.

The U.S. Department of Commerce's "Studies on U.S. Foreign Investment" lists the following as motives for investing abroad:

1. A need to get behind tariff walls to safeguard a company's export markets.
2. Greater efficiency and responsiveness by producing in the local market as compared with exporting to it.
3. The possibility of lower production costs which make it cheaper to produce components abroad.
4. The fear that competitors going abroad may capture a lucrative foreign market or may, by acquiring cheaper sources of supply, threaten the domestic market position of the company.
5. A need to diversify product lines to avoid fluctuations in earnings.
6. A desire to assist licensees abroad who may need capital to expand operations.
7. A desire to avoid home country regulations, e.g., antitrust laws in the United States.

None of the seven points indicates that any U.S. multinational invests overseas to strengthen the United States economy—a propaganda ploy they used frequently. What the Commerce Department's list of motives does indicate is that the American-based multinational is driving hard to eliminate any taint of nationalism—or patriotism—in the world's economy. They pledge their allegiance to but once cause—profits at any price.

Each subsidiary, regardless of area or industry, receives a dowry of resources and rights from its parent corporation. Obviously, the mix of transferred resources will vary with the occupation of the subsidiary. For example, if the foreign subsidiary is to be engaged in raw material extraction for export, then its endowment from the parent consists of money and a cadre of managers and technicians. In addition, it acquires access to various facilities such as—the parent's store of technical skills for digging mines or drilling wells—the parent's organizational apparatus for searching out the added knowledge or resources required by the subsidiary—the markets provided by the parent's downstream refining or fabricating facilities.

If the affiliate is engaged in manufacturing, it would acquire and use a different mix of the parent's facilities. Other subsidiaries may be responsible for a data-accumulating process intended to protect the system from risk, as is the case when a subsidiary is exploring for new sources of raw materials.

"The multinational," according to economist Judd Polk of the U.S. Council of the International Chamber of Commerce, "is a particularly adaptable form. It spawns subsidiaries in a process that is almost like cellular division."

The creation of new wholly-owned foreign subsidiaries is not the only way a multinational can spawn subsidiaries. In many cases, U.S. parents have acquired overseas affiliates by buying out existing local enterprises rather than by building new organizations. With an acquisition, resources are transferred not only to the subsidiary, but also to the former owner. Multinationals are also participating in increasingly varied forms of joint ventures. Basically a joint venture is when two or more companies contribute resources for the conduct of a mutually beneficial enterprises. Multinationals have added the following new wrinkles to this form of business expansion:

Partnerships with local investors, governments, and other multinational companies.

Licenses signed with foreign companies that involve purchase options and management links.

Service contracts between oil companies and national oil monopolies.

Agreements to manage foreign bank networks for a share of the profits.

Production tieups with East European Enterprises which circumvent Communist prohibitions against private ownerships.

The biggest joint venture is probably Rank Xerox, Ltd., a London-based partnership of Xerox Corp. and Britain's Rank organization with sales of around $375 million per year. The company makes copiers not only in Britain, but in Holland. This product is then distributed in Europe, Asia, Africa, and Australia. Though Rank Xerox is, itself, a joint venture it participates in a joint venture with Fuji Photo Film, Ltd., which makes copiers in Japan.

CARBORUNDUM: A COSMOCORP CASE STUDY

The Niagara Falls-based Carborundum Co., which traditionally was an abrasives manufacturer, provides an interesting example of the dynamics of overseas investment. The company has managed to combine the voraciousness of the conglomerate with the non-Americanism of the multinational. Gregory W. Mandeville, the firm's area director for Latin America and the Far East, described its corporate policy this way:

"We will engage in any type of operation overseas that will enable our presence to be profitably established . . . We don't have any qualms about such things as minority interests. We want exposure in as many markets as we can get into."

Though Carborundum is a small company by multinational standards—ranking 354 in Fortune's 500 with sales of $311 million and $298.6 in assets—it has big multinational plans. Its president, William H. Wendel, has said "the company is getting far greater growth overseas than in the U.S." Carborundum pursues a flexible two-pronged strategy in its multinational operations:

Acquisitions abroad, particularly in Europe, where the company feels there are better opportunities than in the United States. Thus sending capital out of the United States.

"Multiple" sourcing, or supplying customers from plants around the globe. Thus exporting productive capacity from the United States.

Carborundum's overseas acquisitions have enabled it to expand far from the limits of its traditional niche in the abrasives industry. In 1966, the company took over Britain's 200-year-old T. Copeland & Sons which made the world-famous Spode china. Early in 1970, Carborundum gobbled up the German cut crystal manufacturer, Barthmann Cristall. It has also purchased Spencer & Halstead, Ltd., a British pollution control equipment firm. Mr. Wendall has said that the company is "hot on the trail" of other acquisitions. Carborundum claims that its multinational activities have helped it to acquire U.S. firms whose own dreams of becoming multinational have been frustrated. Director Mandeville explained that phenomenon this way:

"Being multinational even helps in buying companies in the U.S. One of these was Pangborn. Many companies like Pangborn wanted to come with us because of our international operations. . . . They hadn't done well abroad and they saw our organization as a vehicle for proliferation overseas in things that they have done well in the U.S."

While Carborundum's entry into Europe was mostly through acquisitions, its interests in Latin America were mostly a result of approaches by local investors who wanted to manufacture abrasives. Mandeville described the process as follows:

"We go in and give them know-how, buy equipment and set up a plant—almost a turnkey operation. . . . In return we get a percentage of equity, usually at least 20 percent. In addition, we try to get a contract to supply materials. We also get royalty payments because they have a continuing right to our know-how."

Carborundum has set up this type of operation in Colombia, Chile and Argentina. In Brazil, it set up one company as a wholly-owned subsidiary.

In addition, Carborundum participates in numerous joint ventures throughout the world. Carborundum is now working on a deal to provide technology to Eastern European enterprises and take part-payment in products which will then be sold in Western Europe.

Carborundum, as well as most other multinationals, has the ability to supply customers from plants all over the world. The Carborundum dealer in Barranquilla, Colombia can offer his customers their pick of grinding wheels from the U.S., Britain, Germany, Mexico and Brazil—all made by Carborundum affiliates.

Like other American-based multinationals, Carborundum has set up a supply and distribution loop that tends to bypass the United States. Carborundum's Mexican plant, for example, buys silicon carbide grain—a basic raw material—from affiliates in Brazil and Europe. The Argentine subsidiary purchases raw materials from Norway, and refractories from Mexico. Carborundum's German affiliate exports to Britain some of the very same products that are made by Carborundum's British plants.

Thomas V. Cartolano, regional manager for Southern Latin America explained, "We are buying products within the Carborundum organization throughout the world on the basis of quality, price, and delivery."

Carborundum's management maintains that competition within the organization between affiliates is encouraged.

"Our marketing people from several divisions in the U.S. tour South America, and our British people do the same—sometimes for the same product line, sometimes for different products. They compete through the local Carborundum organization," says Senior Vice President Leon A. Patt.

Competition cosmocorp-style is not the free enterprise-type competition Americans have been taught to believe in. Competition occurs within the confines of the global conglomerate. This combination of world-wide affiliates and financial strength, effectively blocks out external competition.

The next phase of Carborundum's operations, Mandeville believes, "will be to set up highly automated plants in countries where labor costs are low, particularly in Asia, using them to mass-produce fully developed products for sale in other countries, particularly the United States."

"In my opinion, an American firm has no business making some of the products we make now. If we can produce something overseas and import it and sell it cheaper than we can make it locally, we owe it to our customers to give them the best price," Mandeville said.

If all U.S. abrasive manufacturers were to take Mandeville's advice and bend to the lure of cheap Asian labor, the jobs of tens of thousands of Americans would be scuttled.

Of equal importance, American industry would become dependent upon Asian manufacturers for their supply of abrasives which are of vital importance to every segment of industry. From the roller bearings to contact lenses, nearly all manufactured goods at some point along the production line must be ground or polished with abrasives.

Any major disruption in the flow of abrasives from the manufacturer to the customer could bring portions of the nation's industry to, literally, a grinding halt.

Financial Speculations

Overseas investment has been generally thought of in terms of the transfer of production from America to other countries. The transfer of capital, however, may pose even more serious threats to this nation. Overseas investment has brought with it overseas finance. Giant multinational firms have giant financial appetites. Since multinationals act as if the world has no national boundaries, it follows that their capital demands ignore national configuration as well. According to Prince Guido Colonna di Paliano, a former commissioner of the European Economic Community, multinational money "flows in giant waves from one country to another." Sloshing around the multinational community is an estimated $35 billion in liquid assets. These multinational banks and companies have three times more "cash on hand" than the U.S. government reserves.

Pulling the strings on some of the big multinational financial deals are the titans of the American financial community—Chase Manhattan Bank, Bank of America, Manufacturers Hanover Trust Co., First National City Bank of New York, Morgan Guaranty Trust Co., and Chemical Bank of New York. These banks all have overseas branches to handle the financial needs of their American corporate customers who have gone overseas. Chase Manhattan is even opening a branch in Russia.

Some of these banks have entered into joint ventures with leading banks of other nations. American banks now have a substantial percentage of their total deposits in foreign offices. In 1970, the world's third-largest commercial bank, New York's Chase Manhattan with deposits of $19 billion, teamed up with the biggest bank in Britain, Canada and West Germany. Together, these four financial giants created London-based Orion Bank, Ltd. and Orion Termbank, Ltd. According to *Business Week*, Orion Termbank, Ltd. "will get into what is now the hot end of the international money business; arranging medium-term Eurodollar loans to multinational business." There are over a dozen multinational banking operations.

In fact, a Dec. 29, 1972 article in the *Washington Post* reported that Federal Reserve Board Governor Andrew F. Brimmer is deeply concerned about the multinational activities of American-based banks. He noted that the banks set priorities that are not necessarily consistent with public policy. Their overseas holdings make them less susceptible to American fiscal and monetary policies. Mr. Brimmer emphasized that "unless something is done, drastic variations in the availability of credit in important sectors such as housing, consumer loans or municipal financing could occur and persist with serious adverse consequences for the economy as a whole."

U.S. MULTINATIONAL BANKS

Not only do American banks conduct a large portion of their business overseas, they have become increasingly interested in joint ventures with foreign banks.

Manufacturers Hanover Trust Co., for example, runs Manufacturers Hanover, Ltd., in conjunction with merchant banker N. M. Rothschild and an Italian insurance company. Since this venture opened in 1969, it has arranged over $1 billion worth of private deals—among them a $250 million loan for a Dutch electronics giant. In 1970, Chemical Bank of New York banded with Northern Trust of Chicago, Credit Suisse, and the London merchant bank, Barrings, to form London Multinational.

With all of these multinational joint banking ventures being based in London, that city is rapidly becoming the funnel for pouring cash into the overseas affiliates of American-based firms.

ASSETS AND DEPOSITS OF SELECTED LARGE BANKS IN THE UNITED STATES, JUNE 30, 1972

[In millions of dollars]

Multinational banks (20)	Deposits at— Domestic offices	Deposits at— Foreign offices	Foreign as percent of total
1. Bank of America, San Francisco	21,667	10,726	33.1
2. Chase Manhattan, New York	14,985	7,838	34.3
3. First National City, New York	13,471	11,564	46.2
4. Manufacturers Hanover, New York	9,024	2,941	24.6
5. Chemical Bank, New York	8,520	2,267	21.0
6. Morgan Guaranty, New York	6,646	4,071	38.0
7. Security Pacific, Los Angeles	7,721	1,411	15.5
8. Bankers Trust, New York	6,550	2,971	31.2
9. Continental Illinois, Chicago	5,978	2,199	26.9
10. First National Bank, Chicago	5,195	2,206	29.8
11. Wells Fargo, San Francisco	5,589	1,122	16.7
12. Crocker Citizens, San Francisco	4,911	951	16.2
13. United California, Los Angeles	4,468	615	12.1
14. National Bank of Detroit	4,222	580	12.1
15. Mellon National Bank, Pittsburgh	3,548	1,415	28.5
16. Irving Trust, New York	3,165	999	24.0
17. First National Bank, Boston	2,646	1,328	33.4
18. First Pennsylvania, Bala Cynwyd, Pennslyvania	2,566	380	12.9
19. Marine Midland, New York	2,610	2,352	47.4
20. Cleveland Trust, Cleveland	2,358	3	

Source: Washington Post, Dec. 29, 1972.

The cash demands of American-based overseas operations are formidable. U.S. multinationals already owe foreign creditors more than $10 billion. They have invested an estimated $30 billion overseas during 1971 and 1972 alone.

Deputy Treasurer Donald D. McCuaig of Jersey Standard, calls the multinationals' relentless search for cash "sopping up little puddles of liquidity from all over the world."

The day-to-day operations of the American-based multinationals involve huge financial transfers. The conduct of normal business operations involves providing funds for new investment, repatriating profits and controlling the exchange of goods between subsidiaries. Among the ways in which the money moves are dividends, royalties and interest payments; loans and other capital transfers and payments for goods, services and know-how. Almost all American-based multinationals make the policy and financial decisions for all of the far-flung multinational operations out of central corporate headquarters.

MANIPULATING THE MONEY MARKET

Out of these corporate headquarters, most of which are in New York City, come the decisions to minimize currency exchange risks, maximize tax avoidance, maintain high profits at home with which to pay dvidends and accumulate large cash reserves.

Most of these operations involve financial transfers which can have disastrous effects on the nation. Christopher Tugendhat, author of *The Multinationals* pointed out; "The movement of funds within multinational groups, when several are following the same policy, can threaten, and sometimes destroy national policies with regard to currency exchange rates, balance of payments, and the availability of credit."

Out of an office in New York, the Singer Company's chief financial officer Donald G. Robbins, Jr., exchanged $20 million for Swiss francs and British sterling a scant two days before the devaluation of the dollar on Aug. 13, 1972. *Newsweek* commented:

"For Robbins, the operation was strictly a defensive hedge against the vagaries of the currency markets, and the small profit he chalked up was almost incidental. But since his colleagues at the financial controls of 4,000 other multinational companies were doing much the same thing in those tense weeks, they were probably the prime force behind the whole currency crisis."

The American multinationals' habits of adding to the American dollar woes has led James Meigs, economist for Argus Research Corp. to say: "If you want to find all those evil speculators, don't look for them on the Orient Express. They're on the 5:15 to Larchmont (the affluent New York suburb)."

Multinationals are now playing the foreign exchange market in much the same manner that some members of the business community manipulate the stock market. The sheer size and influence of the multinationals—the enormous sums of money at their disposal, their degree of expertise and knowledge, and the central control of their currency manipulations—pose dangers for the stability of major currencies, including our own dollar.

A leading merchant banker in London is reported by the *National Journal* to have said:

"It seems the more controls we have, the more sophisticated is the thinking that is introduced. Yet the corporations, in a natural desire to protect their profits, are warping the normal money market (by selling dollars) and are making it that much more difficult for governments to reach an overall understanding on new parity rates."

Multinationals can, and do, switch their surplus funds from one currency to another. They can sell currencies short—that is, place a sell order in a forward market for currency that they hope will be devalued before they have to hand over the money. Louis Turner, author of *Invisible Empires*, explained that multinational firms "speculate in forward money markets so that they can cover their losses in asset value caused by devaluation with profits made in forward speculation. Such activities put strong pressure on central banks and make the likelihood of the suspected devaluation more certain."

The ploys used by multinationals on the foreign exchange market are not unlike those used by Wall Street wheeler-dealers. On Wall Street, for example, big investment houses, with enormous funds and access to inside information, will go after the same group of "glamour" or "go-go" stocks. As a result, they all tend to want to buy and sell simultaneously. This means that the upward and downward swings are exaggerated.

A U.S. Embassy official in Paris noted that "these new corporate controllers are pretty sophisticated; they know how to operate in money markets. The 'speculators' are the treasurers of the big corporations. They operate in forward markets, not only to protect their mise (investment) but, if possible, to make a little money in the deal."

Last August, it was the American dollar, and the average American citizen, that was caught in the crunch of multinational money speculation. When the dollar was devalued, thousands of American tourists were caught flat-footed. They queued desperately for hours in front of American Express windows abroad hoping to change their dollars to cover the necessities of their stay abroad. Meanwhile, the multinationals had already sold the dollar short, made a substantial profit, and precipitated the entire crisis.

The secretary-general of the International Federation of Chemical and General Workers' Union in Geneva, George Levinson, concluded:

"An international gulfstream of hot money, billions of dollars long and wide, is coursing around the international money markets of the world in the direction from low to high interest rates, raising and lowering them continuously, usually in a contrary direction to domestic policy."

EUROCURRENCY: A NEW MONEY STANDARD

Fueling the fires of multinational money speculation is the Eurocurrency market. This lifeline of the multinational is virtually a "legitimate black market" that exists apart and outside any guidance, supervision, or control. It is expatriate money—currency deposited and circulated outside the national boundaries of its home country. Though the Eurocurrency market consists of Eurobonds and Eurocommercial paper as well as Eurodollars, the Eurodollars are the real lubricants of international speculation.

There is enough money in the Eurodollar market alone to buy and sell countries. At $60 billion, it may well be the largest pool of money in the world. About $47 billion or 80 percent of this is in actual expatriate American dollars. Since a Eurodollar can be any convertible currency deposited with a bank outside its home country, the other $13 billion is comprised of Eurosterling, Eurofrancs, Euromarks, etc.

The amount of dollars alone in the Eurodollar market is four times greater than the $12.1 billion gold and currency reserves held by the United States government. The Eurodollar pool has almost $17.9 billion more than the $42.1 billion total reserves of almost all of Western Europe, including France, West Germany, Great Britain, Netherlands, Belgium, Luxemburg, Ireland, Norway and Denmark. The source of this great accumulation of wealth has been international companies with spare cash and central banks with large dollar reserves accumulated because of the U. S. balance-of-trade deficit.

More dangerous even than the vast sums in the market is the dizzying, ad-hoc way in which it runs. The Eurodollar market is not for the weak or the small. Though the minimum loan is usually $500,000, loans in the millions can be arranged via telephone, based solely on the reputation of the borrower. These loans are generally short-term. Money can be lent for overnight, a day or two, on up to seven years. Money moves in and out of the market in a free-wheeling flow of funds from big banks and big multinationals. Author Christopher Tugendhat explained the Eurodollar market this way:

"The growth of the Eurodollar market is a source of widespread concern among both governments and the bankers who operate it. This is partly because of the lack of controls and recording procedures. Money flows into it and out again at a tremendous rate, and the same deposit may be re-lent several times. It is feared that if one link in the chain of borrowers and lenders should fail a rash of crisis could spread through the international banking community."

A multinational can contact any friendly bank with connections in the market and ask for several million dollars. The bank will round up some other big-money institutions. Together these banks will, on a totally unregulated ad-hoc basis, team up temporarily to provide the necessary funds. Amounts well over $100 million can be raised by a single borrower dealing with a group of banks.

In 1970, Pan American World Airways needed $166.8 million to help purchase ten jumbo jets. A consortium of 26 banks, led by the British Bank of London and South America, provided Pan Am with $166.8 million Eurodollars.

The market not only provides capital for business expansion but lubricates the channels of international currency speculation. In 1969, for example, the Deutsche Mark was revalued. During this monetary crisis, $4 billion flowed into Frankfurt in a single ten-day period. More than half of this money came from the Eurodollar market. This dramatic influx of money increased the pressure on the German government to revalue. Simultaneously, other major currencies, including the dollar, were put under pressure, as those currencies were being sold off in order to buy marks. After the revaluation, the money left Germany as quickly as it had come in, and returned to the Eurodollar market to await the opportunity for more quick bucks and another currency crisis.

CRIPPLING THE U.S. DOLLAR

Pulling the strings on much of this high-powered financial manipulation are American-based multinational banks. U.S. multinational corporations are usually around $10 billion in debt to the Eurodollar market, and the U.S. multinational banks handle much of their business. In fact, banks headquartered in the U.S. conduct an estimated three-fifths of the transactions handled in the "Eurodollar Capital" of London.

This American multinational involvement in the Eurodollar market has had a calamitous impact on the American dollar. An economics professor at the prestigious Wharton School, Arthur I. Bloomfield, contended that "a shuttle of Eurodollars to their European lenders (American banks in Europe) helped precipitate the monetary crisis which finally prompted the Administration to close the gold window and suspend convertibility in August."

Professor Bloomfield calculated that U.S. multinational banks repaid about $10 billion in Eurodollar loans to their overseas branches between June 1970 and 1971, thus putting added pressure on the American dollar.

The *National Journal* reported that "several Federal Reserve officials, interviewed in Washington, agreed that the Eurodollar flow contributed to the August monetary crisis." Once again American-based multinationals showed their non-Americanism and lack of concern for the basic welfare of this country. Many foreign members of the financial community have also become concerned about the "exploits" of the Eurodollar market. The central bankers of the world's ten leading industrial countries—dubbed the "Group of Ten"—have pursued a policy of not increasing the level of Eurodollar deposits by blocking the passage of fresh funds from their reserves into the $60 billion lending pool. The West Germans have instituted reserve requirements on non-resident deposits in an attempt to reduce the speculative activity in the mark. The chairman of the Bank of International Settlements, Dutch citizen Jelle Zijistra, said that "it is becoming increasingly clear that the Eurocurrency market needs guidance and supervision."

THE MYSTERY MONEY

It will be extremely difficult to guide and supervise the Eurocurrency market at this point in time because so little is known about how it actually works. Christopher Tugendhat analyzed that "the market has grown up so fast that nobody—governments, bankers, or academics—has yet had time to evolve comprehensive theories about how it works, and how it should work."

The Eurocommercial paper market is so new that about all that is known of it is that it too provides short term financing. So far, the Aluminum Co. of America, TRW, and American Standard all have raised $5 million apiece by using this market.

With the Eurobond market, however, nobody even knows who the purchasers are. Swiss banks, with a history of keeping secret numbered accounts for their clients, are among the largest purchasers of Eurobonds. Technically, a Eurobond is an international bond which is underwritten by an international syndicate. Like Eurodollars, Eurobonds exist outside and apart from governmental control. The bonds are not subject to withholding tax on interest or the repayment of the principal. The money received from floating Eurobonds is readily transferable across national boundaries. Like ordinary bonds, these Eurobonds are generally used to finance long-term investments.

John Cattier, deputy chairman of the London subsidiary of a U.S. investment banking House, White, Weld & Co., estimated that the Eurobond market provided borrowers with $2.2 billion in 1970 and $2.5 billion in 1971. A multinational can float a Eurobond issue to raise money to finance its overseas operations, or to get cash to dump in the Erodollar market for currency speculation, etc. The Eurocurrency market is much more concerned with the borrower's financial ability to repay than with the reasons the money is needed.

ASIAN CURRENCY NEST

The idea of the Eurocurrency market is catching on elsewhere. Dubbed by *Fortune Magazine as* "The Gnomes of Singapore," Asian financiers, and multinational banks and corporations are busily establishing an Asian dollar market. Spearheaded by the Bank of America, according to *Fortune*, "John D. van Oenen, vice president of the Bank of America, launched the Singapore Asian dollar market in 1968, dealing in expatriate dollars and other currencies that are the region's equivalent of the Eurodollar."

The value of currencies in the lending pool has climbed from virtually nothing to almost $1 billion. Eleven commercial banks—including the top three banks in the U.S.—have branches that trade in Asian dollars. The Narodny Bank of Moscow is also planning to enter the action. Asian dollar loans have helped finance a Jersey Standard refinery in Singapore as well as a hydroelectric plant in South Korea.

While European governments have become hostile to the Eurodollar market, the government of Singapore is most cooperative. It levies no tax on Asian-dollar deposits, unlike Hong Kong which withholds 15 percent. In addition, Singapore has passed a law allowing "Swiss-style numbered accounts." The government has already turned down a request by the U.S. government to examine bank accounts.

The multinationals' habit of squirreling money away in odd corners of the world makes it extremely difficult to follow their operations or assess these for tax purposes.

The financial transactions and accounting of multinationals is hidden behind a smokescreen of secrecy, sheer complexity, and a staggering quantity of both money and transactions. This has made the problem of exposing, analyzing, and regulating the financial speculations of multinationals extremely difficult.

Too little attention is being focused on what may be the most sinister aspect of the U.S.-based multinational—the currency speculations which hold the potential for creating worldwide financial chaos.

DODGING U.S. TAXES

Though multinationals generate more potential tax revenues than the entire economy of most nations, they pay very little in taxes. According to Harvard Professor, Raymond Vernon:

"Tax payments made by multinational enterprises are a matter of bookkeeping, chance, and the vigilance of national taxing authorities."

American corporations in general have been noted for their unwillingness to pay U.S. taxes. A November 2, 1972, article in the *Washington Post* called attention to "a growing national problem—corporate tax fraud." Commissioner of the Internal Revenue Service, Johnnie M. Walters said, "It is unbelievable that large, publicly held corporations engage in such schemes. Yet they do. This is flouting the law—deliberate, willful attempts to avoid and evade taxes."

TAX LAW FLAWS

For the multinational, the nation's tax laws have become an unwitting ally of corporate tax avoidance. U.S. tax laws actually subsidize American-multinational operations overseas. They provide substantial inducements for U.S. corporations to transfer operations overseas and to retain in foreign lands the profits made from those operations.

In short, American tax law has not kept pace with the changing world's economic situation. American corporations were encouraged to invest abroad soon after World War II ended. The U.S. government hoped that a flow of company investment funds would reduce the level of official loans and grants needed to launch Europe's economic recovery. American companies did not rush to Europe to help in the recovery.

The multinational expansion did not start in large amounts until about a decade ago, after European countries were sufficiently recovered to form a lucrative market.

U.S. multinationals rolled up huge tax savings from the post World War II tax laws that still lingered on the books. The multinationals squirreled away earnings from foreign operations into subsidiaries in odd corners of the world—the Bahamas, Lichtenstein, Curacao—where their profits were sheltered from U.S. taxes. They used these untaxed funds to finance other foreign operations. Thus, the base of today's huge multinational empires was made in part from tax receipts lost to the U.S. Treasury.

The U.S. government in 1962 moved to curb the flagrant tax avoidance, but failed. Though the Revenue Act of 1962 closed off the more obvious loopholes, multinational tax avoidance continued. A New York lawyer reported to the *Wall Street Journal* that:

"Before 1962, we had a license to steal. The '62 law, by its sheer complexity, stopped some of that. But there hasn't really been much change—we just work harder to achieve the same thing."

So the global tax avoidance game continues, and the American citizen is once again the loser. In 1970, American-based multinationals earned $17.5 billion in overseas profits, yet paid only $900 million in tax to IRS. So while corporations whose profits are earned in this country are subject to a 48 percent tax rate, multinationals are paying a 5 percent tax rate on the profits earned away from this country.

The corporation that helps the economy of this country . . . the corporation that employs American workers . . . the corporation whose products proudly bear the "Made in U.S.A." label pays much more in taxes than the corporation that has shunned this country and its citizens.

Two tax loopholes, which cost the Federal Treasury at least $3.3 billion annually in lost revenues, are responsible for much of this inequity. They are:

Tax Deferral for Foreign Income which permits U.S. corporations to pay no income taxes on the profits of their foreign subsidiaries until such profits are brought back home—which may be never:

Foreign Tax Credit, which allows taxes paid to foreign governments to be deducted dollar for dollar from the parent company's U.S. tax liability.

The tax deferral loophole is really a "tax-forgiveness" plan. Even at face value, it amounts to an interest-free government loan. The practical effect is, however, far more extensive. In many cases, this tax deferment amounts to an outright gift from American taxpayers to subsidize the foreign operations of American-based multinationals. Profits may remain abroad, and never be repatriated. These untaxed funds are invested and reinvested overseas, creating a "snowball" effect of unrepatriated potential revenues. Thus, deferral amounts to total tax immunity for some corporations and continuing tax losses to the U.S. Treasury.

Dr. Peggy Musgrave, in her study for the Joint Economic Committee of the Congress, said that "it is clear that most income retained abroad is reinvested for plant expansion." In part, as a result of this reinvestment and expansion process, U.S. investments in foreign subsidiaries is now about seven times greater than it was in 1950. Of the $80 billion value of overseas investments in 1970, only $6 billion in interest, dividends and branch earnings was repatriated. This represents a return of only 7.5 percent.

According to AFL–CIO economist Arnold Cantor, this rate is "far below the 10-to-11-percent payoff companies are actually realizing on their overseas investments."

The Commerce Department has reported that by 1968, the latest figures available, U.S. multinationals had accumulated $400 million of tax-deferred earnings.

While the "tax-deferral" loophole acts as a tax "forgiveness" plan, the foreign tax credit is in effect a "revenue sharing program" with foreign nations. This loophole comes into play when a multinational decides to send some of its earnings back to the United States. When this money comes home, the multinational can subtract almost all of its income tax payments to foreign governments from the total tax revenue due the United States Treasury.

The foreign tax preference system enabled U.S. Steel, the nation's 12th largest corporation, to pay *no* income tax at all to IRS in 1971. Though U.S. Steel's profits for 1971 were $154.5 million, it managed to pay not one cent in Federal income tax. If U.S. Steel had been taxed at the normal rate, its tax burden would have been $57.9 million.

U.S. Steel's Venezuelan caper provides an example of multinational tax manipulations in action. U.S. Steel used its Venezuelan subsidiary which mines iron-ore for some complicated tax maneuvering. The multinational utilized the foreign tax credit loophole by paying Venezuelan taxes, and then used these taxes to offset its U.S. tax liability. U.S. Steel was so successful in this tax dodge that it built up more tax credits than it could use. However, the company devised a novel way of salvaging them. It sold $85 million in future iron-ore production, through an intermediary, to a group of U.S. banks. The sale gave the company a big transfusion of new income which could be applied against the otherwise unusable tax credits. However, since its Venezuelan subsidiary would receive no payment for the iron ore it was turning out to meet the production payment it had sold to the banks, huge losses could be registered. U.S. Steel could then use these losses to offset more U.S. income taxes. Thomas Field, director of a public-interest tax lobby called "Taxation With Representation," said of U.S. Steel's dealings:

"As far as tax maneuvering goes, this was a work of art, a Rembrandt. But as far as tax equity goes, it violated elementary standards of fairness. By bunching income in one year, U.S. Steel could avoid limits placed by Congress on foreign tax credits. By creating artificial losses in later years, U.S. Steel could also reduce its subsequent income taxes."

When *U.S. Oil Week* magazine studied the tax avoidance in the oil industry, it found that 18 major oil companies showed a combined income of $10.2 billion, but paid only $683 million in Federal income taxes. Thus the oil companies paid tax at a rate of 6.7 percent. The magazine reported:

"Curiously, the figures show in many cases that the larger the company the smaller the tax percentage. That's because the larger firms are involved abroad where royalties may be treated as federal income taxes paid to foreign governments. thus becoming a tax credit against Federal tax owed Uncle Sam."

TAX MANIPULATORS' STRATEGY

As these examples show, there is big money to be made in tax avoidance. Many multinationals view tax avoidance as a valid corporate policy objective. A study by the Economist Intelligence Unit, an international business consulting firm associated with *Economist Magazine* observed that "the multinational corporations have come to consider it part of their self-interested duty to shareholders to minimize world-wide tax liability."

To meet their "duty," multinationals have devised a complex set of strategies to take full advantage of all possible loopholes. These strategies include:

Adjusting the "transfer prices" of goods exchanged among facilities and between the affiliates and the parent company.

Deferring taxes by squirreling income away in tax havens.

Lumping together income from foreign affiliates so that less of it goes to U.S. taxes.

Transfer pricing enables multinationals to minimize taxes on a global scale. The technique is deceptively simple. Goods are invoiced at a low price to a low-tax country where the local subsidiary, without necessarily even taking delivery, re-exports the goods at a high price to where they are actually needed. Obviously, the subsidiary in the low-tax country is therefore buying low and selling high, and registering a large profit. The subsidiaries in high tax countries buy goods at very high prices and sell them at low prices, thereby registering losses that can be written off for tax purposes.

Of course, these losses are only paper losses, since all the buying and selling takes place within the global empire of the multinational. The losses are in the national Treasury and the losers are the American taxpayers. Through the adroit use of transfer pricing, the multinationals walk a tightrope between tax avoidance and actual tax evasion.

U.S. Gypsum Company's manipulations were so flagrant, however, that the U.S. Treasury decided that the fine line had been crossed. The case involved rock mined in Canada by the Canadian affiliate of U.S. Gypsum Co. While the rock was on a dockside on a conveyor belt it belonged to Canadian Gypsum. However, for shipment the rock was to be dropped from the conveyor belt into the hold of a waiting ship. During the split second the rock was falling from the conveyer into the ship, it was bought, in mid-air, by U.S. Gypsum Export and instantly resold, to the parent, U.S. Gypsum Co., at a profit of 50 cents a ton. Because first the mid-air buyer, U.S. Gypsum Export Co., did not buy the rock until it had left the turf of Nova Scotia, it paid no tax on its profits to Canada. But Gypsum Export Co. was a "Western Hemisphere" trading corporation and entitled to be taxed at 14 percent below the domestic corporate rate, under a law designed to promote trade. Therefore, U.S. Gypsum Export received a preferential tax rate on its 50 cents a ton profit. This arrangement saved U.S. Gypsum more than $700,000 in U.S. taxes. No figures are available on the amount of Canadian taxes U.S. Gypsum avoided because of the maneuver.

The U.S. attorney for the Internal Revenue Service argued that "Galileo taught us from his tower in Pisa, that gravity—not export—caused the gypsum rock to fall from the conveyor on Canadian Gypsum's dock to the stowage of the '*Gypsum Prince*.' "

Multinationals use transfer pricing dodges to avoid taxes on a world-wide scale. *Business Week* noted that "transfer pricing can ease the tax bite for scores of U. S. companies with foreign operations, which use a device called a 'foreign base' subsidiary." The "foreign base" subsidiary gimmick works this way:

A U.S.-based multinational has a manufacturing affiliate in Belgium, for example. Belgium, however, has a corporate tax rate of 40 percent, and the multinational does not want to pay that much. Switzerland, on the other hand, has a much lower corporate tax rate of only 5 percent. The multinationals have devised a way for most profits from goods manufactured in Belgium to be taxed at Swiss rates. The multinationals have established marketing affiliates in Switzerland. The Swiss "marketing front" buys the goods from Belgium at a low price and sells the goods at a profit in other countries. This way, much of the profits realized from the Belgium-made goods are taxed in Switzerland.

The *Wall Street Journal* reported that "siphoning profits into subsidiaries that pay low taxes or none at all is still common in big international corporations. Tax havens on remote islands, dummy subsidiaries in Switzerland, loopholes in the tax laws of various lands, all permit many companies to avoid, more or less legally, large sums in taxes."

The large sums of taxes that U.S.-based multinationals avoid paying the United States Treasury is at direct cost to the welfare of the American people. Every dollar a multinational weasels out of paying to our Treasury, is a dollar less than our government has to provide those services vitally needed in our country. Taxes not paid by multinationals means money not paid for cleaning up the environment—providing proper health services—providing efficient highways and mass transit systems—providing a high quality life for all America.

IMPORTS THAT EXPORT JOBS

The industrial base of the American economy is growing weaker. For tens of thousands of workers in the textile, electronics, chemical, steel, pottery, toy, shoe and other U.S. industries, that base has collapsed. At least a million Americans are unemployed because their jobs have been shipped overseas. The currency speculations and tax avoidance facilitated by overseas operations are merely reflections of the basic problems. The basic problems are decreased production and employment, decreased merchandise exports and increased imports.

Millions of Americans are haunted by the fear of unemployment. Each time a plant is closed down in favor of foreign production, the employed American worker wonders not if, but when will his job be exported.

In reaction to the misery caused by the loss of American jobs through imports, the multinational has kept a "low profile." For example, last October the Admiral Corp. announced that it would close down a plant in Orleans, Indiana, and lay off 600 employees. According to Thomas J. Brunner, a former legislative assistant to Indiana's Senator Vance Hartke, "The workers were told that one reason (for the shutdown) was imports of television sets. But the company was not willing to say that some of those imports were coming from an Admiral plant in the Far East."

The American-based multinationals have washed their hands of the misery caused by the shut-downs of their own plants in the United States. In place of responsibility and concern for the welfare of this nation, they have substituted a "multinational mythology." Multinational myths would have the American people believe that:

Overseas operations of multinationals greatly benefit America.

Losses in tax revenues, trade balances, and payments balances, are more than made up by royalties and dividend payments.

Overseas operations are not driving American-made products off the shelves.

Foreign faciliites are not robbing American-made goods of their share in the world-export market.

Plant closings do not cost American workers jobs.

However, the October 4, 1971 issue of *Industry Week* magazine which, bills itself as "The Voice of Industry," reported:

"Nearly half of the people in the U.S. each morning slip into shoes made abroad. More than half of our black and white TV sets are imported. Nine out of ten of us listen to news on radios built in other countries. Every sixth car on U.S. roads was built overseas."

Industry Week knows that imports can destroy the American way of life because the magazine also found that "every imported car displaces an American-made auto. For every American car not produced, American labor loses $2,400 in wages and benefits—in the automaker and partsmaker plant, in the steel, glass, and rubber factories, and in the mines, on the farms, and in the shops of equipment builders and all the other suppliers of those materials and components which go into the finished automobile. Ironically, the loss in wages and benefits to U.S. workers may exceed the actual price of imported autos."

Even *Industry Week* worries about the future of America. The magazine asked:

"Are we watching the dimming of America?

"Are we exporting too many jobs?

"Are we going to blow our position as the No. 1 industrial power and our world-envied standard of living—all in one generation?

"Are we about ot become a vast storehouse for imported goods—goods we will be unable to buy because we will lack the purchasing power?"

Yet when corporate America is asked "Who is to blame?" the brunt is placed on the American worker and his union. American workers do not work hard enough and unions ask for too much money, corporate executives say. Meanwhile, goods produced by foreign affiliates of U.S. multinationals pour into this country and are sold at the same price as American-made goods. Many imports are American brand-name items produced overseas. The savings in production costs do not go to the consumer, but they do enrich the coffers of the multinationals. A large percentage of the manufactured goods imported into this country are made by the foreign affiliates of U.S. multinationals.

Though multinational spokesmen are quick to point out that just 8 to 12 percent of their total foreign output is reimported into the United States, even that amount constitutes a substantial porion of U.S-manufactured imports. For example, though only 7.9 percent of the sales of foreign manufacturing affiliates were to the U.S. in 1968, they accounted for 23 percent of all manufactured imports. The share of manufactured goods imports produced by American-based foreign affiliates is steadily increasing. That share was expected to reach 37.6 percent in 1972. Projections indicate that imports from foreign affiliates of American companies may well make up half of our nation's manufactured imports by 1975.

U.S. and foreign-operated multinationals also engage in joint ventures and licensing agreements. These activities not only provide imports that wipe out American products, but freeze out U.S.-made exports as well. The Dodge-Colt, for example, though manufactured by Mitsubishi Motors Corp. in Japan, is nonetheless marketed by American-based Chrysler. Chrysler owns 15 percent of the stock of Mitsubishi Motors. In spite of Chrysler's involvement, the 20,000 Colts that Chrysler handled in 1971 were not counted as "imports" from a foreign subsidiary of a multinational. Yet Chrysler's interest in displacing 20,000 American-made cars for Japanese-made Dodge Colts is self-evident.

As part of the deal, Chrysler got the rights to sell its Valiants in Japan. The Valiants were assembled in Australia. So in this case, an American-based multinational helped a foreign country export cars into the United States. On the other hand, the exports that Chrysler sold in Japan were not wholly made in this country, and were assembled by Australian workers. Clearly, this joint venture operated as a double-edge sword against American workers.

DECLINING U.S. PRODUCTION

While multinational investment overseas was skyrocketing from $11.7 billion to $78 billion during the 20-year period from 1950 to 1970, the American-made share of world production was plummeting. Here are some examples of the decline of American production in industries we dominated worldwide only two decades ago:

> In 1950, America dominated the world's automaking with 76 percent of the total. In 1970, U.S. workers built only one-third of the world's cars.
>
> American mills produced 47 percent of the world's raw steel in 1950. By 1970, our share had dropped to 20 percent.
>
> The United States was virtually the world's only shipbuilder following World War II. Now we build less than 2 percent of the world's merchant ships.
>
> Year after year, America had been the world's leading machine tool builder. Today we rank fourth.

This decline in American production can be attributed in a large part to the activities of U.S.-based multinationals. America's industrial giants need to produce goods in this country. They produced them in such quantity and of such quality that America was able to dominate the world markets in many major industrial categories. But now American-based multinationals produce overseas what they used to produce in America.

Plant and equipment investments by foreign affiliates of U.S. corporations have had a direct bearing on this American decline. The goods produced by these affiliates, including an ever-increasing share of capital goods, are distributed not only in the host country, but enter the world markets in direct competition with products made in the United States.

In the past, American overseas investment was concentrated in those industries where the United States was a consistent net importer—industries as nonferrous metals, minerals, and petroleum. It made good sense, and was helpful to our national security, to have American companies owning the supply sources of these strategic materials. Firestone, for example, has rubber plantations in Brazil, Ghana, Guatemala, Liberia and the Philippines. This type of investment does not cost jobs for American workers or destroy the marketability of American-made products. However, the recent shift to investment in manufacturing industries is an entirely different matter. This is a situation that is directly reflected in the declining U.S. share of world trade.

Firestone, has expanded far beyond its overseas rubber plantations. Now it has direct or indirect foreign subsidiaries that manufacture and distribute tires, coated fabric products, industrial products, field tire cord, textiles, synthetic rubber, rubber, plastic products, etc. These products are made in virtually every corner of the globe—Argentina, Australia, Brazil, Canada, Costa Rica, France, Ghana, India, Italy, Japan, Kenya, Liberia, Malaysia, Mexico, New Zealand, Norway, Portugal, Philippines, Singapore, South Africa, Spain, Sweden, Switzerland, Thailand, Tunisia, United Kingdom, Uruguay and Venezuela.

Firestone's products can not only end up on the import side of the U.S. ledger, but frequently they are marketed to third countries, thereby reducing the export market for U.S.-made goods.

The Caterpillar Tractor Co. wholly owns Caterpillars of Australia, Caterpillar of Brazil, Caterpillar of Belgium, Caterpillar of Canada, Caterpillar Mexicana, Caterpillar Overseas Credit Corp., S. A. Caterpillar France, Caterpillar Africa, and Caterpillar Far East. It also owns half of Caterpillar Mitsubishi in Tokyo. These companies are producing construction equipment which has cut into the U.S. share of the world market by a full 10 percent since the early 1960's.

Caterpillar, a major farm equipment manufacturer, uses an argument common to many multinationals—that overseas activities are good for the United States—that they result in lower prices and more jobs. The facts contradict Caterpiller's propaganada. The wholesale price index has, since the base year of 1967, risen faster for American-made agriculture equipment than for most other manufacturing categories. At the same time U.S. employment in the farm equipment industry has declined by more than 12 percent—or nearly 20,000 jobs.

Foreign investment by U.S. multinationals increased rapidly from 1960 to 1971. Concurrently the United States lost ground in its share of world exports. In four vital industries, the United States position in world markets has declined, while foreign investment has soared. (See Appendix B, page 93.)

> Chemicals: The U.S. share of world exports was 29.6 percent in 1960, but dropped to 19.9 percent in 1971. Meanwhile, foreign investment by U.S. multinationals increased from $237 million in 1960 to $1.3 billion in 1971.
>
> Electrical machinery: The U.S. produced 28.2 percent of world exports in 1960, but in 1971, we produced only 21 percent. On the other hand, foreign investment increased from $104 million to $523 million during the same period.
>
> Non-electrical machinery: The U.S. share of world exports was 32.7 percent in 1960. By 1971, that share had dropped to 25.5 percent. During the same period, foreign investment soared—from $192 million in 1960 to an estimated $1.5 billion in 1971.
>
> Transportation equipment: The U.S. share dipped from 33.2 percent in 1960 to 29.5 percent in 1971. Foreign investment skyrocketed from $336 million to $1 billion during the same period.

There are numerous other examples of companies producing goods overseas where formerly American-made goods dominated the world trade picture. These companies that have become multinationals have undermined U.S. dominance through their foreign affiliates. For example:

> All of the major automobile companies have foreign subsidiaries, selling both to host countries and third countries.
>
> The Carrier Corp. which makes air conditioning equipment, formerly a uniquely American industry, now has subsidiaries in Japan, Canada, Malaysia, the United Kingdom, and Germany.

> Even the computer industry, pioneered by American technology, has gone foreign as U.S. firms open facilities around the world. IBM has 17 manufacturing plants in 15 nations, including Japan. IBM World Trade Corp. and its subsidiaries operated facilities in 108 countries in 1969.

It is true that in many cases it has been necessary for U.S. corporations to open manufacturing or assembly plants in foreign countries because of the restrictive, protectionist, discriminatory practices of those countries. Exorbitant tariffs on U.S. goods or outright bans on imports have made it necessary for the U.S. companies to build a facility if they are to do any business in the host country. While practically every nation in the world engages in these practices either individually or in concert—such as the protectionism of the European Economic Community Common Market—the U.S. stands alone in attempting to preserve a "myth" of free trade. Our State Department refuses to recognize that economic theories of the past are not the realities of the present. The result is that the "Made in U.S.A." label is not only disappearing from the world scene, it is disappearing from the shelves of our department stores.

In 1971 alone nine out of every ten home radios were imported; one out of every five new cars were foreign; one out of every two black and white TV sets came from abroad.

America's recreational needs are increasingly being filled by foreign-made equipment. 76 percent of the tennis rackets, 30 percent of bicycles, 96 percent of the motor cycles sold in the United States are foreign made. Even something as "All-American" as a Ted Williams autographed baseball glove at Sears Roebuck carries the small print "Made in Japan." In fact, 90 percent of all baseball gloves are foreign made.

The "Made in U.S.A." labels will not be seen for long on the clothing of America's men, women, and children unless there is a change. Sixty-eight percent of all sweaters, 42 percent of all men's and boys' woven shirts and 28 percent of women's and children's woven blouses are not made in the U.S.A. In addition, two out of every five pairs of shoes are made abroad. The slogan "Buy American" is fast becoming "Buy American, If You Can Find it."

This flood of imports is washing away American jobs.

Precise information on the job-loss of imports and multinational activities is not available. Estimates of job-loss ranges from a minimum of around one million to more than 1.5 million. However, according to former Secretary of Labor George P. Shultz, even these estimates may be low. Secretary Shultz told the Joint Economic Committee of Congress:

"About 1.8 million jobs in 1966 would have been required in the United States to produce the equivalent value of the 74 percent of imports into the United States that were competitive with U.S. made products. For 1968, the estimate would be about one-third higher—about 2.4 million."

Though a precise figure on overall job loss is difficult to pin down, the following are examples of the types of job losses that have occurred in key industries:

> Imports of footwear and manufactured leather goods more than doubled from 1960 to 1968. They jumped $148 million to $388 million for footwear, and from $52 million to $114 million for other leather goods and dressed furs.
>
> During the same period, 13,000 productive American jobs were lost. The activities of American-based multinationals such as Interco and Genesco had a direct impact on this loss of American jobs.
>
> Though Americans are buying more toys and sporting goods than ever before, they are not being made in this country. While imports in the 1960's were increasing 337 percent, American production jobs increased only 20 percent. American-based multinational conglomerates are manufacturing abroad and selling these foreign-made products under American brand names.
>
> In the electronics industry, multinational activity has virtually wiped out American production of consumer and civilian products. U.S.-based multinational corporations, using U.S. technology, produce components, entire products or assemble components in foreign plants for sale in the U.S. market, as well as in third countries. According to an AFL–CIO *American Federationist* article, "Thousands of workers in this industry are confronted by import-related job losses and production cutbacks as defense contracts decline."

MEXICO'S MULTINATIONAL MISERY

When the bracero program, which permitted temporary Mexican farm labor to enter the United States, was terminated in 1965, the Mexican government countered with a project to bring American jobs to Mexico. The Mexicans utilized sections 806.3 and 807 of the U.S. tariff schedule, which allows components manufactured in the United States to be shipped to other nations for assembly and to be reimported for the American market with a duty being levied only on the value added in the foreign nation.

The Mexican government set up a 20-kilometer strip from Matamorous, south of Brownsville, Texas, to Tiajuana, south of San Diego, as a distinct zone in which to implement the Mexican Border Industry Program. Greedy American multinational corporations rushed to take advantage of the scheme.

Mexico's program has created 50,000 jobs for workers who perform labor-intensive assembly and processing tasks on components sent into the zone duty-free, primarily by U.S.-owned companies.

The finished goods are sent back to this country with the companies paying a U.S. tax only on the value added by Mexican labor.

The actual value added, however, has not determined the tax. Only the cheap wages paid the Mexican worker—frequently a tenth or less the amount paid his American-worker counterpart—has been considered in the "value added" for tax purposes.

Already 350 runaway plants are operating in Mexico. American workers have lost 50,00 jobs.

However, the Mexican workers employed in this program have not gained a decent life. Like its predecessor, the bracero program, the Border Industry Program has contributed misery and disease to the life of the Mexican worker. A U.S. Embassy report contained the following comments as reprinted by *Industry Week*, October 2, 1972:

> "Prostitution and delinquency are increasing as a result of the heavier-than-normal migration to the border zone combined with unfulfilled job expectations."
>
> "The traditional relationship between parent and adult daughter is being rapidly changed, and illegitimate births are increasing."
>
> "Traditional male-female family roles are changing, with male frustration leading to greater delinquency."
>
> "Border cities are rapidly losing ground in their efforts to provide housing, sewage, medical care, and other services—and their responsibilities in these areas are increasing faster than new revenues."
>
> "Some border cities may have already passed the level of inhabitants for whom they can ever provide, particularly in areas of relatively absolute limits such as water."
>
> "Social tensions in the border cities are increasing as a result of the above problems, rather than decreasing through increased employment."

The multinationals' claims of "Peacemakers of the World" rings hollow amidst the prostitution, delinquency and filth of the border cities. For on the Mexican border are the same American-based multinationals who have been telling the world that their non-American attitude and their global economy schemes will bring harmony and prosperity to the world.

American-based multinationals are an integral part of the "Border Industries Program"—an integral part of the slums, overcrowding and social disintegration brought by industrialization. Some of the American-based corporate giants that are operating on the border strip are Bendix, General Electric, Radio Corporation of America, Control Data, Union Carbide, General Instruments, Teledyne, Lockheed, Honeywell and Raytheon. Also across the border are plants assembling parts for famous American-brand name products—Baldwin pianos, Motorola, Magnavox, Memorex, Samsonite, etc.

This program has cost thousands of American jobs. The value of goods imported from the Mexican border plants has soared from $7 million in 1966 to an anticipated annual value of $350 million in 1972.

Senator Vance Hartke noted that "the United States has long undertaken a commitment to help developing nations fulfill their industrial aspirations, but there is no reason why thousands of American workingmen should bear the total burden of building up Mexican industry and fattening the coffers of American-based multinational firms."

In Mexico, the legacy of the American-based multinational has been misery. American workers have lost their jobs. Mexican workers have a life of slums, disease and delinquency. Meanwhile the multinational in its relentless search for profits, remains oblivious to the hardships this form of business enterprise has caused. Ironically, Mexican consumers are not permitted to purchase goods made or assembled in the Mexican trade zone until the products have been exported to another nation and then imported by Mexico.

EXPORTING TECHNOLOGY

If jobs are a major U.S. export, technology exports rank not far behind. In fact, the export of technology and the export of jobs go hand in hand.

America has been the world's leading innovator. According to a 1968 report by the Organization for Economic Cooperation and Development, American-based companies originated 60 percent of the 140 major innovations examined. Traditional theories of world trade assume that this great inventiveness has given the United States and its workers a competitive edge over goods produced anywhere else in the world. Those traditional theories, unfortunately, do not hold water today. Technology transfers have turned world trade theories upside down.

Howard D. Samuel, vice president of the Amalgamated Clothing Workers analyzed the situation and found that "Technology, capital, invention, skills—nothing can give us the natural protection which was once afforded us, in theory and in fact. If the process continues unabated, the final irony is that we could be reduced to the posture of the backward nations of the 19th century, depending on the sale of agricultural products—we are already a major exporter of soybeans—in order to buy the manufactured products turned out by the nations of Africa and Asia."

Bizarre as it seems, industrialized America is exporting soybeans and wheat, while underdeveloped Asia is exporting electronic components. In the past, the United States had played the role of an advanced nation. We exchanged our manufactured products for the raw materials of underdeveloped nations. Today, American-based multinationals are helping reverse our role. According to a December 19, 1970 *Business Week* article:

"The multinational company is the most effective agent yet devised for the transfer of technology across national boundaries—a transfer that is essential to a multinational industrial enterprise."

The transfer of technology by multinationals costs American jobs and American tax dollars. American tax dollars have paid for much of the research and development that enabled the multinationals to ship American technological know-how abroad. In short, as taxpayers we have paid for the inventiveness that allows production in other nations to compete and undermine American-made products.

To encourage technology developments in the United States, the Federal government instituted tax deductions for corporations for research and development. Tax dollars have been also used in out-right government grants to universities for basic research.

Corporations are clamoring for even bigger Federal research and development aid. In the hands of a multinational, however, the newly perfected piece of technology that has been paid for by the American taxpayer is shipped off to a subsidiary in some foreign land for application; or is licensed, or franchised, or joint-ventured. Harold Scott, director of the Commerce Department's Bureau of International Commerce, commented, "Nothing is more perishable than technology. The widest possible dissemination its owner can make is the route to maximum profits."

American-based multinationals are very quick to point out how much money they return to this country in the form of royalties and fees. However, even the National Association of Manufacturers has reported that "Although the balance-of-payments royalties and fees account is at best an indirect measure of technology transfer, it does provide a rough estimate of the importance of the MNC (multinational corporation) as a transmitter of technology."

Thus, the $2.5 billion royalty and fee payments from foreign affiliates to U.S. parent companies between 1964 and 1969 represented the sale of American technology. Even this figure does not accurately state the extent to which American-based multinationals have sold American ingenuity and creativity on the world market. Multinationals treat American inventiveness and genius as if they were commodities—potatoes or iron ore—to be sold to the highest bidder.

In the hands of a multinational, our technology gets shipped abroad in a variety of ways:

Licensing. Basically, an American company sells the rights to use a specific piece of technology to an independent foreign company. The foreign company pays for the use of this "knowledge" by paying royalties and licensing fees. According to *Business Week*, "By 1968, some 800 U.S. companies were reporting income from royalties and license fees paid by independent foreign companies abroad, and the annual take was more than $350 million."

Foreign Affiliates. Here the technology is kept under one corporate roof but is sold to the foreign affiliate. The foreign subsidiary uses American technology to produce goods overseas. As in licensing, the foreign affiliate pays the parent company royalties and fees for use of the technology. Etienne Cassignol, general manager of Motorola's plant in Toulouse, France, said that his customers can buy the latest U.S.-designed integrated circuitry from the French plants. "Each time we start a new production line or launch a new technology, we send engineers or technicians back to Phoenix (Arizona) for training. This is extremely valuable for France." he said.

Joint Ventures. When an American-based multinational enters into joint ventures with foreign companies it shares our technology with them. For example, Westinghouse and General Electric are teaching the Italians nuclear technology because of their joint ventures with Fiat and Finnmeccanica, respectively. *Business Week* noted that "Someday an Italian nuclear industry will probably compete with the U.S. in markets such as Latin America." Joint ventures with Japanese companies are helping Japan to take deadly aim at the U.S. computer market.

The exportation of American technology has reached such proportions that some economists and professors are calling it a "hidden brain drain." Professor Cooper of Yale University said that, "if the U.S. cannot develop monetary and fiscal strategies that enable American companies to compete effectively in world markets, it may be necessary to restrict the activities of American firms abroad."

"By that, he means keeping U.S. technical knowhow at home," reported *Business Week*.

American engineers and research scientists use their genius to perfect technology that is shipped overseas. In the process, their jobs and their projects are exported. The rise in unemployment among some of America's most skilled and highly educated technical people can be in part attributed to the multinationals' exportation of technology. Rather than employing American engineers, multinationals, such as Motorola, train foreign engineers to perform these functions in far-away factories. It is not only the blue collar worker who has seen his job shipped overseas, but the technician, the scientist and the business manager whose jobs and opportunities are being exported. During the five-year period of 1967 through 1971, the average annual rate of unemployment in the United States rose from 3.8 to 5.9 percent, an increase of 55 percent. For professional and technical employees, the increase was more than 123 percent, while for engineers it was a massive 310 percent.

As the multinational moves to becoming a trans-national corporation, manned by men of all nationalities but of no national allegiance, every strata of American society will find its economic opportunities diminished.

THE HIGH COST OF IMPORTS

The flood of imports, though eroding jobs and draining knowledge from this country, is supposed to benefit the American people because of the lower prices of imports. This is an argument that is meaningful only to people whose jobs have not been lost or will not be endangered. It is worthless to those who have no job from which they can earn wages required to make purchases.

The reduced-price argument is not even valid for the general public over the long run. An import may enter the American market at a price so low that it knocks out American-made goods. But once the competition is taken care of, the price creeps back to the previous going rate, and sometimes to an even higher price as the import takes full advantage of its monopoly position in the United States. The consumer does not benefit—but the profits realized by the manufacturer or by the retailer are fattened. According to the July, 1972, AFL–CIO *American Federationist*, "The process is described in *Electronic News* in the words of a spokesman for a U.S.-based multinational: 'Although assembly of complete color sets in Taiwan won't affect pricing stateside . . . it should improve the company's profit structure. Otherwise we wouldn't be making the move. We'd leave the sets where they are now.' "

The following prices come from one firm with licensees in Japan, Hong Kong and Taiwan. It reveals that the beneficiary of low-wage imports is not the American consumer:

A portable radio that is priced at $11.66 in Japan has a landed-in-U.S. price of $13.81. But the suggested retail price is $39.95—more than three times the price of what it costs in Japan.

Another model of portable radio is priced at $46.22 in Japan and costs $54.05 when it lands in the U.S. However, its suggested retail price is $179.95—again triple what it costs in Japan.

An imported AM–FM tuner amplifier has an even more inflated mark-up. In Japan, it is priced at $31.74 with a U.S. landed price of $38.80. Its suggested retail price, however, is a whopping $159.95.

This type of profiteering at the expense of both the American worker and the American consumer can be shown for product after product.

The cost of multinational activities to the American citizen and the U.S. economy cannot be evaluated only in terms of the prices of goods on the shelves. America is paying an even higher price in terms of jobs lost or not created. The heavy surge of imports of such relatively labor-intensive products as shoes, textiles, clothing, steel, autos, ceramic tiles, radios, TV, leather goods, etc., has reduced employment opportunities for those members of the American community who most need jobs. The loss of these job opportunities has occurred at a time when jobs for the unskilled and semiskilled are urgently needed. The divisiveness, tensions and wounds that trouble our country cannot be healed by creating greater job scarcities at a time when our labor force is growing at a rate of 1.5 million a year. Employment and job opportunities are the best routes toward a prosperous and stable America. Yet the activities of American-based multinationals are robbing many Americans of a chance for a decent job and a dignified way of life.

America needs not only to be strong at home but strong abroad. The multinationals are weakening the United States' position in world trade. The United States is about to register the worst trade deficit in its history. In the first 11 months of this year, imports have outstripped exports by a whopping $5.8 billion. This is almost triple the $2 billion deficit suffered last year, which was the worst American trade deficit of the century.

The U.S. trade position is dissolving at break-neck speed. In 1970, we had a surplus of $2.7 billion. One year later that surplus had become a $2 billion deficit, and that deficit is now projected to be $6 billion to $7 billion in 1972. Under present policies, no relief is in sight.

The Chase Manhattan Bank *Newsletter* for June 1969 predicted a continuing slippage of the U.S. share of world trade through 1973. The bank predicted a slower rise of exports of "technologically advanced products, while imports of such products are expected to rise rather rapidly. Thus, prospects for an improved U.S. trade balance remain dim." Chase Manhattan's predictions have proven to be devastatingly accurate!

While American-based multinationals are turning theories of world trade upside-down, American policy has not reacted. Our trade and tax laws and policies remain wedded to past, antiquated concepts. Archaic concepts of "free trade" may be making American greatness equally archaic.

CONCLUSION

The specter of a world run from corporate board rooms is creating a furor at home and abroad. American-based multinationals have on many occasions publicly disclaimed any allegiance and responsibility to the United States and its people. Gus Tyler, assistant president of the Ladies' Garment Workers International Union, analyzed the problem of U.S. multinationals as "the kind of head-on clash between an economic empire and national interest that, historically, has led to internal upheaval and foreign wars.

"Against this rising threat," he said, "the claim of the multinationals that they are the great peace-makers of the planet rings ironically. How long before they turn to the American worker whom they have disemployed, to the American treasury that they have weaseled out of income, to the American nation from whom the 'stateless' corporation has long been divorced—how long before they call upon their forgotten country to come to the aid of the embattled corporation? And, if Uncle Sam responds with troops, with what will they fight if the great industrial power of the land has evaporated into the mists of a service economy?"

The foreshadowing of this clash may have already been seen in Chile. On

Dec. 4, 1972, Chile's President Salvador Allende Gossens charged before the United Nations General Assembly that his country was the victim of "serious aggression" initiated by United States corporations, United States banking interests and United States governmental agencies. President Allende also said, "Before the conscience of the world I accused the ITT (International Telephone and Telegraph) of attempting to bring about civil war in my country."

Dr. Allende also held that, "We are witnessing a pitched battle between the great transnational corporations and sovereign states, for the latter's fundamental political, economic and military decisions are being interferred with by worldwide organizations which are not dependent on any single state and which, as regards the sum total of their activities, are not accountable to or regulated by any parliament or institution representing the collective interest. In a word, the entire political structure of the world is being undermined."

American trade unionists are dedicated to the free enterprise system and unalterably opposed to the dictatorial regime of Dr. Allende. Yet the incident in Chile brings to light one in a series of skirmishes which have occurred worldwide between governments and the multinationals. Many foreign countries have become increasingly unhappy with their U.S.-based multinational guests. South American nations are calling for expropriation of U. S. holdings and Canada is clamoring against U. S. domination of its markets. The non-Americans have started to threaten their host countries' economy with the same disregard that they have treated the American economy.

For example, when the French government decided to get tough with multinationals, General Motors opened a plant in Belguim instead of France and shipped the product into France duty free. Last year, Ford threatened to move from England to West Germany, unless the British promised to "tame" its unions. Multinationals have been accused of causing unbalanced development in the Third World by concentrating on the spread of Western consumer goods and technologies in a world where hunger, over-population and under-employment are the real needs that should be met.

In fact, officials throughout the world are beginning to question whether existing institutions, laws, and policies are adequate for coping with the problems posed by the multinationals. Charles Levinson, the Canadian-born secretary general of the International Federation of Chemical and General Workers Unions said:

"The multinational is an economic principality existing largely in a legal no-man's land beyond the reach and control of governments. The multinational doesn't respond, moreover, to economic laws as analyzed by Keynes, Ricardo, or Kenneth Galbraith. It creates a tremendous new volume of investment, circumvents tariffs by transfer-pricing, evades taxes by locating headquarters in tax havens, and is usually in an advanced technology sector where wages are but a tiny portion of production costs."

Even Mexico is beginning to cool its formerly warm welcome of American-based multinational investment. Mexico's presidential Advisor Horacio Flores de la Pena said, "We will be partners of foreign investors, but we don't want Mexico to become a land of maids and waiters."

We in the United States do not want America to become a land of idle workers and empty factories. The time has come to recognize that the U. S. economy is in serious trouble and that a prime cause is the activities of U. S. multinational corporations.

We must look at our tax policies, our trade laws and treaties, our collective bargaining tactics from a new perspective that recognizes that companies with old established U. S. names such as General Motors, Ford, Caterpillar, General Electric and Firestone are no longer U. S. companies. They are "companies without a country" and as such may well be posing a serious threat to the economic and political security of the United States.

APPENDIX A

	World sales [1]			
	1970	1971	Country	1970 GNP [1]
1. General Motors	18.8	28.3	United States	$974.0
2. American Telephone & Telegraph	17.0	18.5	Soviet Union	485.7
3. Standard Oil of New Jersey (Exxon)	16.6	18.7	Japan	196.7
4. Ford Motor	15.0	16.4	West Germany	184.8
5. Royal Dutch Shell	10.8	12.7	France	146.3
6. Sears Roebuck	9.3	10.0	People's Republic of China	121.0
7. General Electric	8.7	9.4	United Kingdom	116.3
8. IBM	7.5	8.3	Italy	91.7
9. Mobil Oil	7.3	8.2	Canada	78.0
10. Chrysler	7.0	8.0	India	52.5
11. Unilever	6.9	7.5	Poland	46.0
12. ITT	6.4	7.3	Brazil	40.4
13. Texaco	6.3	7.5	East Germany	39.6
14. Great Atlantic & Pacific Tea	5.7	5.5	Mexico	33.2
15. Gulf Oil	5.4	5.9	Australia	32.9
16. Safeway Stores	4.9	5.3	Spain	32.5
17. U.S. Steel	4.8	4.9	Czechoslovakia	32.5
18. Volkswagen	4.3	5.0	Sweden	31.5
19. Westinghouse Electric	4.3	4.6	Netherlands	31.3
20. Standard Oil of California	4.2	5.1	Belgium	25.0
Total	171.2	197.1		2,823.4

[1] In billions.

Source: Library of Congress Congressional Research Service, Oct. 8, 1971, and Fortune Magazine, May 1972.

COUNTRIES AND COMPANIES 1970

Rank	Country or company	GNP or sales (billions)	Growth rate, 1965–70 (percent)
1	United States	$974.0	42.98
2	Soviet Union	485.7	60.10
3	Japan	196.7	32.64
4	West Germany	184.8	64.69
5	France	146.3	56.51
6	People's Republic of China	121.0	55.26
7	United Kingdom	116.3	17.23
8	Italy	91.7	61.55
9	Canada	78.0	62.33
10	India	52.5	6.66
11	Poland	46.0	50.52
12	Brazil	40.4	83.85
13	East Germany	39.6	50.57
14	Mexico	33.2	70.79
15	Australia	32.9	44.90
16	Spain	32.5	49.61
17	Czechoslovakia	32.5	47.99
18	Sweden	31.5	62.82
19	Netherlands	31.3	65.03
20	Belgium	25.0	49.72
21	Romania	24.4	64.53
22	Argentina	23.9	49.15
23	Switzerland	20.6	47.73
24	General Motors	18.8	90.44
25	Yugoslavia	18.5	118.16
26	Pakistan	17.9	60.00
27	South Africa	17.8	66.40
28	American Telephone & Telephone	17.0	53.27
29	Standard Oil (New Jersey)	16.6	44.29
30	Denmark	15.8	57.83
31	Ford Motor	15.0	29.38
32	Indonesia	14.0	34.52
33	Austria	13.7	49.37
34	Bulgaria	11.7	74.36
35	Norway	11.2	60.15
36	Royal Dutch/Shell	10.8	50.35
37	Venezuela	10.3	34.20
38	Finland	10.2	25.64
39	Iran	10.1	70.36
40	Philippines	9.8	89.05
41	Sears Roebuck	9.3	44.94
42	Greece	9.2	65.40
43	Korea, South	8.9	206.51
44	General Electric	8.72	40.44
45	Turkey	8.68	6.87
46	Chile	8.4	96.59

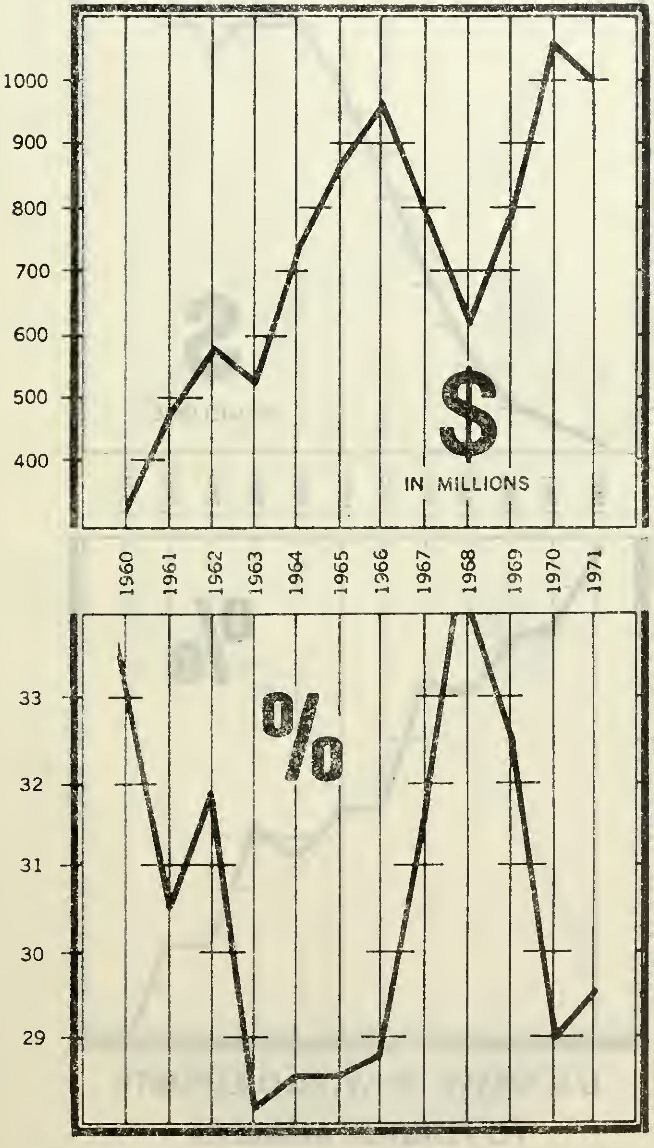
Rank	Country or company	GNP or sales (Billions)	Growth rate, 1965-70 (percent)
47	International Business Machines	7.5	110.01
48	Mobil Oil	[1] 7.3	47.94
49	Columbia	7.07	38.6
50	Chrysler	6.93	32.07
51	Unilever	6.9	34.96
52	Thailand	6.8	76.18
53	International Telephone & Telegraph	6.4	256.92
54	Texaco	6.3	68.03
55	U.A.R. (Egypt)	6.3	34.04
56	Western Electric	5.9	74.18
57	Great Atlantic & Pacific Tea (New York)	5.7	10.37
58	Peru	5.64	31.95
59	Israel	5.59	64.67
60	China (Taiwan)	5.5	98.40
61	Gulf Oil	5.4	59.40
62	Safeway Stores (Oakland)	4.9	65.36
63	U.S. Steel	4.8	9.40
64	Volkswagenwerk	4.314	86.18
65	Westinghouse Electric	4.313	80.46
66	Standard Oil of California	4.18	71.49
67	Philips' Gloeilampenfabrieken	4.16	99.76
68	J. C. Penney (New York)	4.15	81.34
69	British Petroleum	4.1	68.68
70	Nippon Steel	4.0	----------
71	Malaysia	3.91	36.53
72	Ireland	3.85	37.25
73	Ling-Temco-Vought	3.8	----------
74	Kroger (Cincinnati)	3.735	46.22
75	Standard Oil (Indiana)	3.732	51.01
76	Boeing	3.677	81.75
77	E. I. du Pont de Nemours	3.618	19.76
78	Shell Oil	3.589	40.12
79	ICI (Imperial Chemical Industries)	3.509	53.67
80	British Steel	3.496	----------
81	North Korea	3.5	40.00
82	General Telephone & Electronics	3.4	68.90
83	Hitachi	3.32	----------
84	Morocco	3.31	27.35
85	RCA	3.29	61.21
86	Siemens	3.196	78.05
87	Goodyear Tire & Rubber	3.194	43.53
88	Swift	3.1	11.81
89	Farbwerke Hoechst	3.027	----------
90	Union Carbide	3.026	46.60
91	Daimler-Benz	3.018	----------
92	Procter & Gamble	2.978	44.68
93	August Thyssen-Hutte	2.956	----------
94	Bethlehem Steel	2.935	13.80
95	BASF	2.874	----------
96	Montecatini Edison	2.841	----------
97	Marcor (Chicago)	2.804	----------
98	Eastman Kodak	2.784	----------
99	Kraftco	2.751	----------
100	Greyhound	2.739	----------

Source: Library of Congress, Congressional Research Service, Oct. 8, 1971.

APPENDIX B

TRANSPORT EQUIPMENT

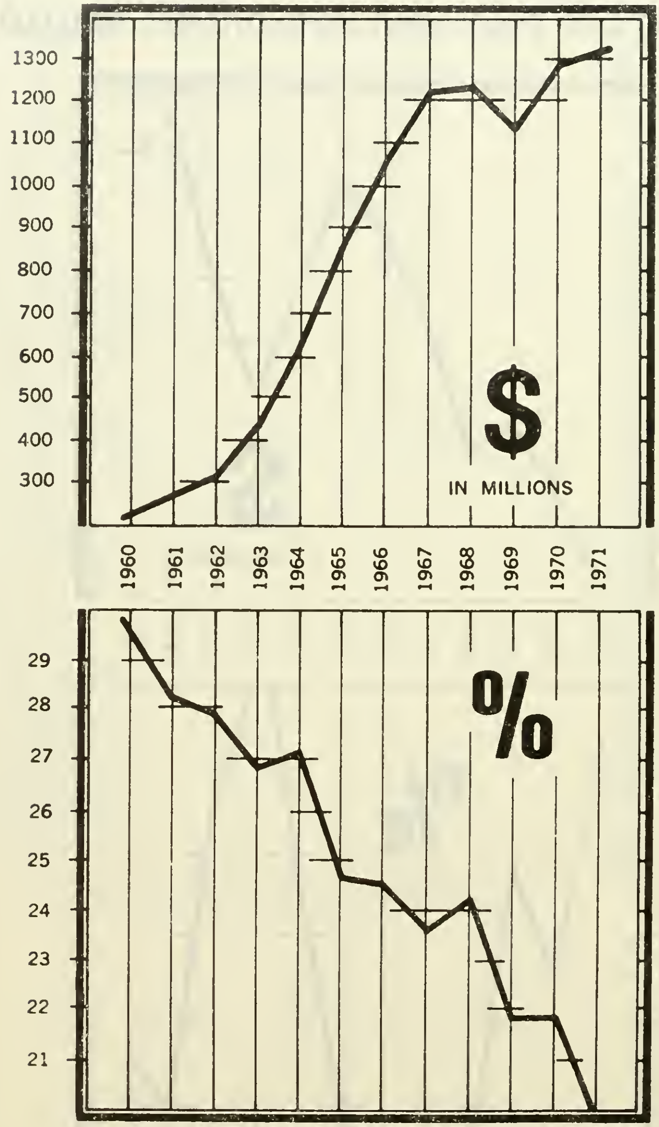
PLANT AND EQUIPMENT EXPENDITURES ABROAD



U.S. SHARE OF WORLD EXPORTS TO FOREIGN MARKETS

CHEMICALS

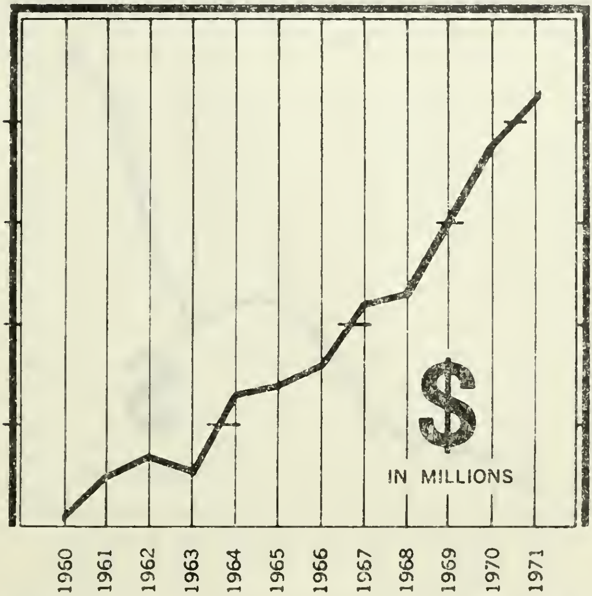
PLANT AND EQUIPMENT EXPENDITURES ABROAD

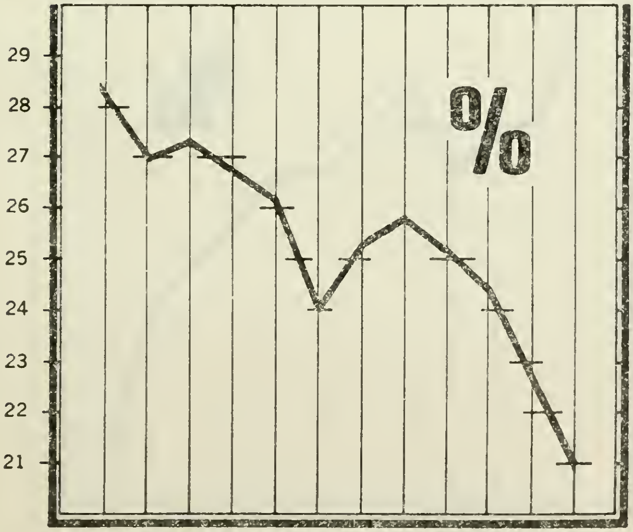


U.S. SHARE OF WORLD EXPORTS TO FOREIGN MARKETS

ELECTRICAL MACHINERY

PLANT AND EQUIPMENT EXPENDITURES ABROAD

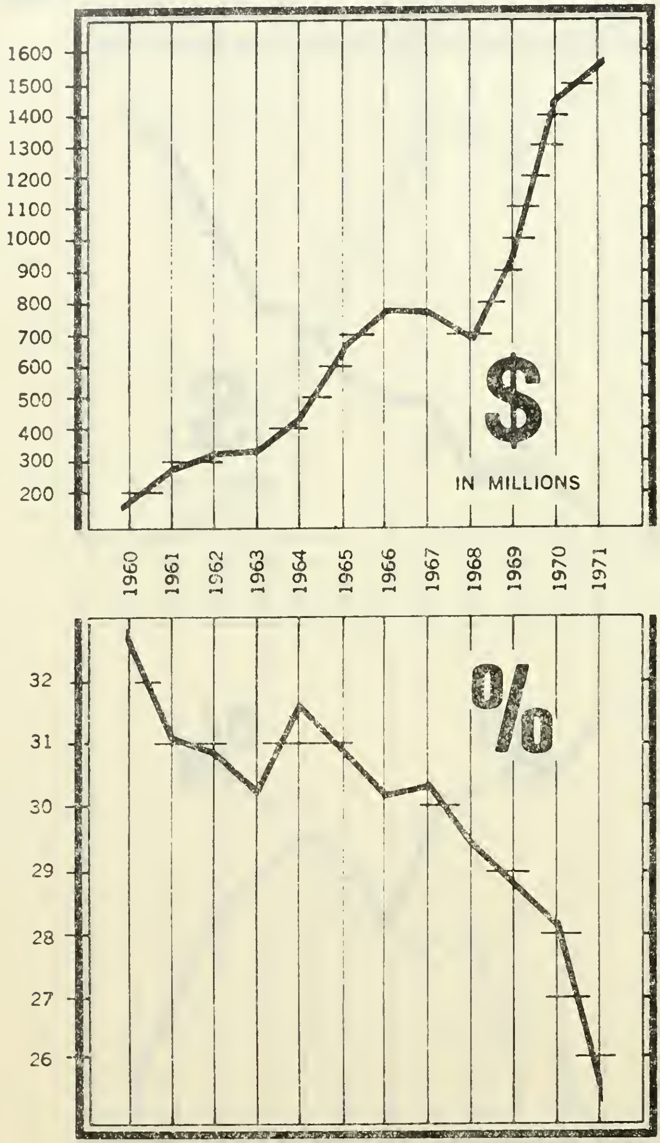




U.S. SHARE OF WORLD EXPORTS TO FOREIGN MARKETS

NONELECTRICAL MACHINERY

PLANT AND EQUIPMENT EXPENDITURES ABROAD



U.S. SHARE OF WORLD EXPORTS
TO FOREIGN MARKETS

Senator Ribicoff. The committee will adjourn, subject to the call of the Chair.

(Whereupon, at 12:15 p.m., the subcommittee was adjourned, subject to the call of the Chair.)

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